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Organisational Structure – Structures for Growth

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MBA

Organisational Structure – Structures for Growth

By

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A Management Project presented in part consideration for the degree of Executive Master of Business Administration.

Summary

Rexam Plc has articulated that part of the company's strategy is to make a carefully managed expansion into the emerging markets. In this report I suggest an alternative structure for Rexam to enable implementation of such a strategy and propose a business process for designing effective organisational structures.

The work of Chandler (1962) charts the evolution of company organisational structures from the early centralised structures of the 1920s to the multidivisional structures still used by multinational companies today. The findings from academic research conclude that structure follows strategy and company structures evolve and adapt to facilitate the deployment of strategy. Rexam Plc has a history of structural change that closely resembles the history of many of the world's leading organisations during the last eighty years. The company has diversified and rationalised, it has used autonomous structures and centralised structures with each change occurring as a result of strategic change.

Rexam business leaders recognise that the process of designing organisational structure is still driven by the needs of the business at a point in time depending upon the strategy. This traditional method of organisational assessment and design is now being challenged. Companies such as Unilever are now improving returns and sales growth aided by a business process that assesses the effectiveness of the organisation. Robust assessment triggers and targets are embedded into the company's business process enabling the quantitative measurement of the organisational effectiveness.

This report assesses the principles of good organisational design and suggests how the internal effectiveness of the current Rexam organisational structure can be improved. If organisational structures can be designed to be more effective they can lead to competitive advantage and the successful implementation of strategy. This paper supports and recommends that Rexam Plc considers a process for assessing the effectiveness of the organisational structure during and after changes to the current structure. The process should take a holistic view and measure the effect on the rest of the organisation.

Finally this report suggests a new approach and organisational structure for strategy deployment in the emerging markets of India, the Middle East and Asia. By incorporating the proposed process and feedback from internal the Rexam studies this paper proposes that the recommended organisational structure is developed as a pilot project that could have wider reaching benefits for the ongoing global sectors and business units within Rexam Plc.

Acknowledgements

There are many individuals who have contributed to this report that I would like to thank. Firstly I would like to Rexam Plc as my employer and Gary Clark for agreeing to sponsor me for my studies. I only hope that the findings of this report provide a useful insight to organisational structure and design for the many executives, colleagues and managers at Rexam as means of some compensation for their efforts and assistance.

Finding time to conduct internal interviews within an organisation is never easy and so I am extremely grateful to the generosity of the Group CEO Graham Chipchase, HR Director Jon Atchue, Company Business Development Director Michael Cramb and VP Human Resources BCE&A Nikki Rolfe. Thanks also to Nikki again, Rochelle Chopamba and Mary McHugh for providing useful project guidance and helping with the administration.

I also need to thank the respondents to yet another online questionnaire. Survey Monkey has a lot to answer for but it's encouraging to see people soliciting the opinions of colleagues and peers within the organisation for many other business issues. I was extremely pleased to obtain a 77% response rate within such a short space of time. Maybe people are keen to see the results? Well I hope so anyway.

Jason Ramskill

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Introduction

1. Strategy and Structure

Alfred D Chandler's awarding winning book 'Strategy and Structure: Chapters in the history of the American Industrial Enterprise' (1962) could easily have been titled 'Structure and Strategy'. The importance of the title appears to be irrelevant as Chandler aimed to understand and identify the drivers – does strategy drive structure or does structure drive strategy? Chandler's interest in organisational structure was initially as an historian studying the beginning and evolution of large-scale organisations. The interest today is equally as strong as many strategist use history to strengthen their case for strategy development and deployment.

Chandler's work focused on the largest corporations in America as he compiled a chronological history of evolution and structural changes over more than sixty years from the 1900s. During this period the most radical of the changes that occurred was the change from the centralised company structure to a multidivisional one. Until the mid 1920s the biggest companies in America (General Motors, DuPont, Standard Oil (now Exxon) and Sear Roebuck) had operated with top heavy centralised structures. The 1920s crash had brought about financial difficulties and as a result new organisational approaches were being presented. Chandler noted that as the companies expanded and grew they changed to a divisional structure that was driven by diversity and complexity rather than size. The change to the divisional structures had a profound effect on company strategies over the next fifty years and even to date. Because the top heavy slow decision making process had been removed divisional managers could now adopt long term strategies for growth using their new found capabilities to move abroad where they could compete with the competitive advantage of scale.

In the late 1960s and 1970s the cash rich corporations started a mania for mergers and acquisitions. There appeared to be little logic as half of the six thousand acquisitions in 1969 were for unrelated products. This lead to corporations adding complexity and it became common for the largest corporations to have thirty to fifty divisions. The corporations became too large and bureaucratic to operate efficiently as Hrebiniak (1992) stated: Internal expansion and the inevitable creation of hierarchy can negatively affect flexibility, speed of response to markets, and the free flow of information required to implement global strategies.

In the late 1970s and early 1980s companies started to divest the non core businesses as competition intensified across industries. The works of Porter (1979) discussed in great depth the value of identifying the core business and 'doing what you do well'. Barney's (1991) Resource Based View (RBV) theory discussed the use of valuable resources and developed capabilities as key to limit imitation as a form of competitive advantage. This led to the Internationalisation process being focused on the company core strengths and thus alliances and joint ventures were created to develop the value chain more efficiently.

We can now see that the cumbersome centralised organisations of the 1920s were reorganised for the necessity to improve the decision making process. The hierarchy of these large centralised corporations was replaced by a divisional structure which fostered more autonomy for senior managers. With this autonomy managers developed divisional capabilities, which in turn lead to diversification and rapid growth. Unfortunately the diversification resulted in the same problems of communication between the corporate office and the division, slow decision making processes and a lack of synergy savings due to the nature of unrelated businesses. In answer to these problems large corporations developed the matrix and transnational organisational structures pioneered by companies such as Unilever. This report will discuss these concepts in more detail later as we analyse the advantages and disadvantages of various organisational structures.

Discussion

Chandler (1962) concluded that multidivisional structures (described M forms) were a response to the problems of coordination and control that large diversified corporations were facing in the 1920s. Hence his hypothesis that structure follows strategy. If corporate strategy is the determination of long term goals and objectives then structure can be described as the design of the organisation through which the strategy is administered. Chandler demonstrated how the multidivisional forms evolved over time to cope with the changing markets and environments.

2. Drivers for Reorganisation

As discussed earlier it appears the main driver for reorganisation is the need to improve returns. Results from the Corporate Leadership Council's (2010) survey suggested that 81% of 264 organisations surveyed had undergone a major redesign initiative in the past twelve months. The survey was collected from HR leaders from a wide range of organisations including manufacturing, insurance, technology, construction, healthcare and financial services. The geographic scope included the US (50%), Europe (15%) and a range of Asian and Latin American companies. The results concurred with the earlier findings of Chandler and presented the following reasons for organisational redesign –

- Reduce Costs 72%
- Reduce Process inefficiency 49%
- Improve Product / Service Quality 35%
- Growth in Current Market 24%
- Merger or Acquisition 20%
- Expansion in to a New Market 13%
- Improved Customer Alignment 3%

We can see from the above that the results are all linked to improved returns. None of the top answers mention the human aspect of organisations such as motivation, communication and job satisfaction. From the organisations surveyed 79% claimed to have outperformed against their cost cutting targets which emphasises the key measure of performance that companies prioritise.

In the large corporations studied by Chandler complexity and cumbersome decision making processes had a profound effect on returns. Companies such as Ford focused on a narrow product offering grew profitably maintaining a tight central control, whilst General Motors larger portfolio created the complexity issues that drove the change in organisation to a divisional structure. Unilever (which will be discussed in more detail later) is a more recent example where declining profits (4% from a €40bn turnover) had driven a change to the organisational structure. Between 2000 and 2004 Unilever reduced its number of brands from 1900 to 400 and either integrated businesses into geographical regions or divested them. The scale of change was dramatic as 87 businesses were divested in 2002 alone. In Europe seventeen businesses were integrated into one region.
(Source – Smith 2009)

Reorganisation through vertical integration is another strategic move that recently occurred in the soft drink (Soda) market with Coca-Cola's agreement (Wright 2010) to acquire Coca-Cola Enterprises for an estimated $12.7bn. PepsiCo had moved first when it announced the $7.8bn acquisition of Pepsi Bottling Group Inc in North America in April 2009 (street capitalist.com) stating that it could make $400-600m synergy savings. In this case the drivers were for increased profitability. The soft drinks business model is structured with a complex mixture of franchises, joint ventures and wholly owned bottling companies. With these recent changes Coke and Pepsi absorbed the bottler's profit margin into their own value stream and also gained control over marketing, promotion and distribution. This reorganisation strategy contradicts some of Chandler's findings as these moves were made during company prosperity. Strong cash reserves allowed the company to reorganise for stronger profit potential in a simplified organisational structure without diversifying into unrelated businesses.

3. Strategy and Structure Report Aims

The key aim of this report is to identify the organisational structure that enables the deployment of a strategy for growth for Rexam Plc, beverage can division for Europe and Asia. The process leading up to the conclusion will be as follows –

Review organisational structure literature and case studies. Chapter one will focus on the aspects that determine the current organisational structure. I will present how and why organisations structure their businesses in a particular way depending on factors such as core values and strategy perspectives.

Review the factors that enable effective organisational design. Chapter two reviews some of the available literature about the elements of good organisational design. The chapter discusses how to assess the organisations structural alignment to strategy and how to proactively trigger redesign before it's too late. The concept of lean organisations and process mapping is introduced with examples of how process improvements can be made within the Rexam organisation.

Review the competitive strategies and structures. In chapter three I will compare and discuss the organisational structures of Rexam's competition. I will discuss why Rexam should continue with the strategy for growth in the regions identified.

Review the effectiveness of the organisational structure for Rexam Beverage Can division Europe and Asia. Through a series of online questionnaires and interviews I will assess the key drivers for the current company structure and the need for reorganisation. By assessing the advantages and disadvantages of Rexam's current structure and the issues faced within the matrix organisation, recommendations will be made for alternative structures for the implementation of a growth strategy.

Final conclusions. The report will use the findings from the surveys and theoretical 'good design principles' to present alternative organisational structures for Rexam Beverage Can division Europe and Asia. Finally recommendations will be made for the design of an organisational structure that can support an emerging growth strategy in the Middle East and Asia.

4. Rexam PLC Company History

Introduction

Rexam PLC is a £5.0bn multinational consumer packaging company operating 100 plants in more than 20 countries. The beverage can sector, which accounts for 77% of the group turnover supplies major global brands such as Coca-Cola & Red Bull. This report will focus on the beverage cans business in Europe and Asia (BCEA) which accounts for 40% of group turnover. BCEA is ambitious to grow through organic growth and acquisition in both ongoing and emerging markets. Headquartered in the UK the division has progressively grown and centralised many of the business functions. With plans to grow further towards the Middle East, India and Asia questions are being asked how the company can support this growth from a centralised location based on the far west side of the region.

A Brief History

The origins of Rexam date back to 1881 when William Bowater established a firm of paper agents in London. The company became limited 1920 and retained the name until 1995. In the mid 1940s the company had diversified into building products, packaging and corrugated paper but during the 1960s the competition caught up and an overcapacity in the market occurred forcing prices to spiral downwards. The company’s strategy of vertical integration on a large scale was flawed which lead to the new strategy of diversification. Bowater made numerous acquisitions into unrelated businesses and made the acquisition of Ralli an international commodity trading company whose sales were roughly equal to that of Bowater. However the synergies between the businesses were not evident and in 1981 the commodity business was divested.

From 1985 to 1995 Bowater continued its strategy of focusing on its core strengths. The news print business was eventually divested and the business was organised into five business groups – packaging, building products, freight services, builders’ merchants and Australian group. Through its numerous acquisitions and disposals during this period, Bowater improved its overall financial performance. The company's operating margin stood at 4.7 percent in 1986 but increased to 10.1 percent by 1994. During the same period group revenues increased from £1.37 billion to £2.21 billion.

In 1995 Bowater was renamed Rexam and a major reorganisation occurred which resulted in a write off of £254m and financial loss of £238m for the year. Rexam’s strategy of focusing on the core strength of packaging led to the acquisition of PLM the 4th largest beverage can maker for £588m in 1999 and the acquisition of American National Can in 2000 completed the strategy to move into high growth packaging sectors.

In 2003 Rexam acquired Latasa the largest beverage can producer in South America creating the world's largest beverage can manufacturer. In 2006 Rexam made its first move into the Middle East with the acquisition of Ecanco the Egyptian beverage can producer.

Source for references – www.referenceforbusiness.com, Rexam annual accounts 2010, Rexam.com – Our History.

Chandler's (1962) earlier studies had focused on the largest American companies, but it is equally interesting to note how Bowater / Rexam had strong similarities to the American history. Wilkins (2008) stated that British firms appeared to be lagging in the 1960s becoming international after the American firms due to centralised management that occurred from the persistence of historical family firms. Maybe Bowater's earlier merger with American companies influenced the strategy of diversification in the 1960s and 1970s followed by the return to core strengths in the 1980s following a major divestment of unrelated businesses and the aligned (packaging focus) merger strategies.

Rexam Structural and Strategic Challenges for Beverage Cans 2011

Asset utilisation – will be focused on to improve the ROI (ROCE) and rebalance the supply demand where contract volumes have changed.

Expansion into emerging markets – whilst 30% of group turnover is generated in the emerging markets Rexam believes these regions will still generate strong future growth. Rexam now has 60% of the beverage can market in South America (accounting for 15% of group turnover) which grew 18% in 2010.

Rexam's Competition

Crown Holdings of the US with a sales turnover of $7.9bn and a ROS of 15.7% is the largest competitor of Rexam (equivalent sales of $7.84bn and ROS of 10.7% @ 1.6 f/x). Next is Ball Corporation with a sales turnover of $7.63bn and an ROS of 14.5%. Interestingly all three companies have a similar history as they started out as a family business in the late 1800s and followed the divestment, acquisition roadmap analysed by Chandler. Crown and Ball also made the decision in the late 1980s to concentrate on their core strengths and through aggressive acquisition and divestments focused on the metal packaging sectors.

Source of information – Crown annual report 2009 & 2010, Ball annual report 2010, Rexam annual report 2010.

The Rexam Organisation Structure

Rexam is organised by product (plastics) and region (beverage cans) and the top 10 customers account for 80% of the business with global brands such as Coca-Cola, Anhauser Bush and Red Bull. The corporate structure (Fig 1.0) is a hybrid, combining a geographical structure with the three beverage can sectors, and a global product structure with the plastic packaging sector. The three beverage can sectors and the global plastics business all have a turnover of a least £1.0bn per annum.

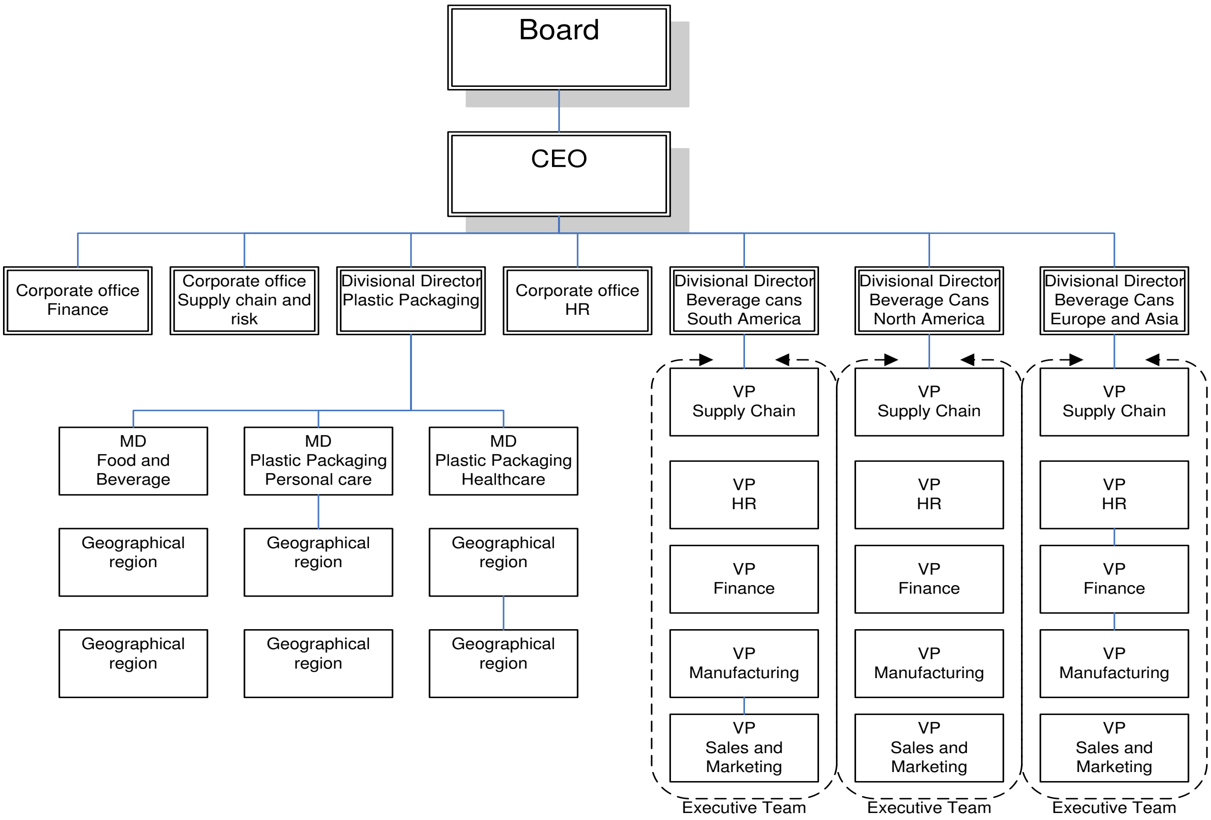


Fig 1.0 – Rexam Corporate and Executive Organisation structure

Chapter 1 – Organisational Structure

1. Early Organisational Structures

The introductory chapters of this report briefly discussed the works of Chandler (1962) and the evolution of the largest corporations in the United States which emerged from local to national markets in the 1920s creating top heavy bureaucratic organisational structures. At the same time industrial scientists (FW Taylor 1911) and (Elton Mayo 1933) were studying two quite different (human) aspects of work that effected productivity. There appears to be a link between how companies viewed the most efficient management methods for the use of resources and labour. The link becomes clearer as we understand the need for increased productivity from the early industrialists.

As companies grew in the 1920s and 1930s to meet the growing demands and consumption rates their need for competitive advantage was met with increased productivity to improve returns. The studies of Taylor indicated the need for standardisation and scientific approaches to productivity. He introduced work studies, debottle-necking and standard operating procedures to maintain and control the processes. From Taylor's *'Principles of Scientific Management'* (1911) he suggested –

> "It is only through enforced standardization of methods, enforced adoption of the best implements and working conditions, and enforced cooperation that this faster work can be assured. And the duty of enforcing the adoption of standards and enforcing this cooperation rests with management alone".

To enforce this approach to productivity companies tended to structure their organisations vertically by product and function with high levels of centralisation. Known as mechanistic (mimicking machines) these approaches were unpopular with the workforce. Ford was known for its high productivity systems during the introduction of the model 'T' which later were referred to as Fordism (named after the US automobile pioneer Henry Ford 1863-1947).

To counter the motivational issues created in the mechanistic structures researchers began to seek alternative approaches. These organisational structures became known as 'organic' and recognised the importance of human behaviour and culture. Harvard researcher Elton Mayo (1933) conducted the Hawthorne experiments between 1927 and 1932 at the Western Electric Company's Hawthorne works in Chicago USA. The experiments demonstrated that the environment that people worked in increased levels of productivity. Simple experiments such as changing the lighting and improving the work place standards and housekeeping were enough to motivate workers. When conditions were reversed the productivity returned to the previous levels.

The concepts of teamwork, job diversity, autonomy, reward and recognition all are humanistic values that modern management still recognise as the way we should manage our workforce. As a result 'organic' organisational structures tend to be flat and have fewer levels of management or centralised functions.

Quite often companies make decisions to centralise or decentralise business functions without thinking about the effect on the employees within that organisation. Ford resisted the change from the mechanistic approach for many years and even today we still see the company structured by function close to the corporate level. Other companies such as Unilever were at the opposite end of the spectrum with an organic structure that lead to an extremely complex matrix / transnational organisational structure. The conundrum that MNCs (multinational companies) face today is – where to position their own company between highly mechanistic and openly organic. The key factor affecting the positioning will be the organisational perspective chosen by the company and the global presence.

2. Globalisation and Global Presence

To fully understand the reasons for corporate structure in MNCs we also need to consider the globalisation process. Chandler (1962) noted that the globalisation process (driven by the need to improve returns) drove the changes in structure required to manage overseas operations effectively, with companies initially creating overseas divisions. Gupta and Govindarajan (2001) stated; "Global presence by itself does not confer global competitive advantage". They stated that a company's internationalisation plans are far more complicated than building or acquiring businesses outside of the traditional homeland. Organisational structure is required to support the strategy and Gupta and Govindarajan identified a number of factors to be considered during the process.

From the observations of Gupta and Govindarajan (2001) it appears that adapting to local markets and cultures is important during the internationalisation process, but can this be true for all businesses? It could depend how the company views the end users or consumers needs. If the needs are functional and price driven then global scales of efficiency may prevail to the detriment of local preferences. In the next section I will discuss how organisational structures are developed depending upon the company's perspectives for customer / consumer satisfaction and the way the companies may choose to manage the business.

3. Organisational Perspectives

Multinational companies are shaped and influenced by the organisational perspectives. These perspectives of function, product and geography help define how companies divide and organise their structures into manageable parts.

- Companies structured functionally may focus on manufacturing, sourcing, marketing and sales. Supported with financial and personnel services these separate functions are structured and managed for the scale of efficiency. Traditionally Japanese companies such as Canon separated sales and marketing from operations even through the internationalisation process until the 1980s when some companies began to create cross-hierarchy organisational arrangements.

- Companies with a product perspective generally group products and or services with related technology and/or markets served. Henkel (€15bn sales) is product structured around its categories of Laundry and Home care, Cosmetics and Toiletries, and Adhesive Technologies. Source – Henkel.com

- Geographic perspectives group all products and services into one specific region from national to continent segmentation. Coca Cola is segmented by continents (Latin America, North America, Pacific, Europe, and Eurasia & Africa) where it supplies the same portfolio of products within each geographic region. Source – Coca Cola.com

Companies may use different perspectives at different levels within the organisation. Some companies are structured regionally at corporate level and then by products at national level, as we see with Rexam's competitor Crown Holdings. In contrast Rexam is structured by the product at corporate level, and then regionally focused by product.

The perspectives differ at corporate level in many companies depending upon how they perceive the best strategy for organisational structure. If a company's strategy is to be close to the customer (Coca Cola) it may opt for a regional structure at corporate and national level. For a marketing department this structure would allow local managers more autonomy over the decisions being made that effect local performance.

Differing perspectives however, have the potential to drive conflicting, competing or complementing business objectives. Being close to the customer may achieve the local feel required to ensure the right marketing initiatives are used to satisfy the consumer, but the decentralised structure that results from this perspective may hinder the scale of economies that operations require to maintain competitive advantage (hence effecting pricing policies). This example shows how easy it can be to get the balance of perspectives wrong resulting in a failed strategy.

4. Operational distance

We can now see how a company's perspectives shape the corporate structure, but it is what happens in the next level of the organisation that effects the strategic balance.

Humes (1993) discusses how the structure of the company effects the way the business units and functions are managed. The global – local dilemma is brought about when companies search for the balance between global direction and local discretion. The degree of operational distance and autonomy can influence how centralised or decentralised the multinational is structured. Multinationals with an open operational distance tend to run business units at 'arms length' where the planning is decentralised and headquarters principally plan investments and control finances.

Companies that manage with this level of autonomy can be described as holding companies, where the expectation is for the business units to focus on results and self manage. Chandler (1962) suggested this level of autonomy was given to the earlier movers in the internationalisation process in the 1960s and 1970s as companies moved overseas and diversified. The multinationals with less operational distance and tighter control have a more 'hands on' approach. They have more centralised functions, product-specific and function-specific direction and they control / implement detailed instructions and standards.

Ford has a functional, centralised corporate structure comprising Automotive (the main division) and Ford financial services. The Automotive group is split into North American Automotive Operations and the International Automotive Operations (Ford.com). At this high level the division is organised by function resulting in the sales, development, manufacturing and other functions having full central control down through the organisational structure. Hence the view in Ford is that employee's careers rarely move into other functions as employees become functional specialists.

5. Organisational Structures

The basic characteristics of nearly all organisations exist due to the fact the companies have a need to divide labour, create decision making structures and manage with some level of formal rules and procedures. These basic needs are structured and divided for maximum effectiveness of the company's resources.

Fayol (1949) first introduced the concept of administrative tasks in organisations and described the needs of the organisation and the employee. The concepts described that predominantly effect organisation structural are –

- The division of work or specialisation. Fayol viewed that this increases productivity for both technical and managerial work.
- Authority and responsibility are necessary to enable workers to achieve organisational objectives.
- Unity of command is required so that employees only take orders from one superior.
- Centralisation and de-centralisation management structures should be used to achieve the right balance that enables effective decision making.

- Scalar chain and initiative encourages members of the group on similar hierarchical levels to work together without direct orders.
- Direct and indirect workers are clearly defined in large organisations where specialisation is required.

We can now understand the need for structure in organisations and how perspectives, operational distance, and geographic presence combine to affect the design of the structure. We need structure to improve returns but defining the required structure at the outset is not so easy. Efficient structures are sometimes created by trial and error, which seems plausible as the key driver to changing them is associated with improving returns. If poor returns exist change the structure, if the company returns improve retain the structure. In this next section I present the basic structural concepts for the MNCs.

Basic Organisational Structures

Management usually stresses one or a combination of the three perspectives (product, function, geographic) during strategy deployment. Each perspective will influence the operational distance, type of management model (mechanistic or organic) and possibly the geographic (global) presence that the organisation can effectively manage. The organogram below (fig 2.0) shows how a corporate structure organised by product would appear as the first two blocks (product family A and product family B). The entire corporation could be structured this way with each product having its own divisional/product family staff. Each division is then split by product and finally by manufacturing location.

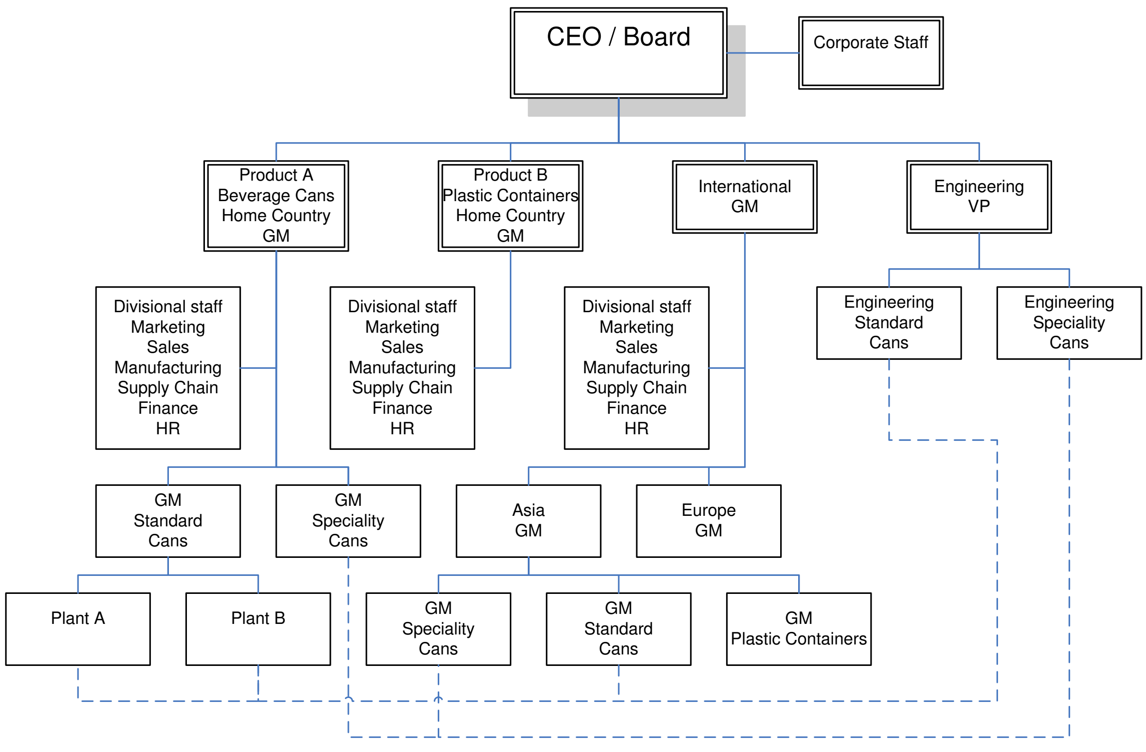


Fig 2.0 – The mixed perspective organogram

The introduction of the International division creates a geographical perspective, again with a divisional staff before splitting into geographic regions. The next level in the split is by product category which could lead to the division by plants. We can see here that the structure creates an additional level of management but what we don't know is how large or complex the division is and whether this is required to meet the effective management tasks as outlined by Fayol (1949).

The final addition of Central Engineering to the organogram brings functional perspective to the organisation. The function is arranged into subdivisions by product specialisation. But this new addition now brings a new dimension at the lower levels as it interacts with the plants and sectors creating a matrix structure.

The Matrix Structure

Matrix organisations were made popular in the 1970s as companies sought to reduce cost and improve the managerial effectiveness of multinational divisions as the MNEs operating environment became more complex during times of growth and diversification. Matrix organisations promote the sharing of resources across all functions and divisions of the company whilst also providing flexibility and balanced decision making. Companies also tended to turn to matrix organisations as they understood the need to be more responsive to changes in the market and technology. However all the flexibility and responsiveness can come at the price of complexity and ambiguity.

The matrix requires three types of managers to function, with the corporate manager heading up and balancing the different lines of control. The functional, product or geographical managers who share the resources are next in the hierarchy and finally the matrix managers who support the structure potentially reporting to more than one functional manager.

The organogram (fig 3.0) below depicts a simplified Europe and Asia divisional structure for Rexam to demonstrate the details and differences to the formal divisional structures previously discussed. The division employs 5000 people across seventeen counties in twenty-six manufacturing locations with the Executive team forming a centralised team specialising in their specific functional areas.

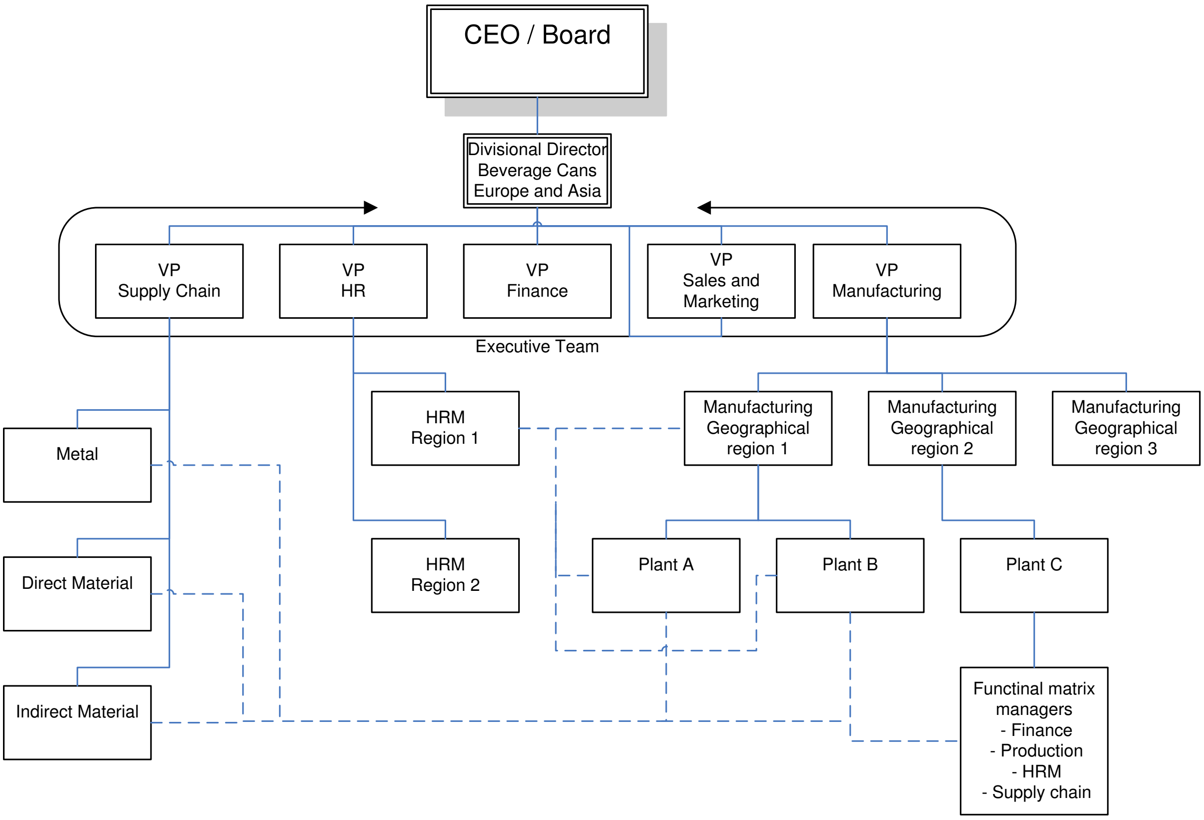


Fig 3.0 – The matrix organogram

The division is next split regionally for manufacturing and HRM, and functionally for the supply chain managers. We can see how the dotted line reporting from the plants to the centralised functional managers can become complex as each of the functional executives has a formalised central structure beneath them, which interacts with the functional matrix managers within each plant. The dotted lines form informal networks which rely on the understanding of common objectives for all matrix managers as they balance the needs of their direct line manager and the centralised functional / category managers.

Davies and Lawrence (1979) identified the problems of matrix organisations shortly after they became so popular. The issues ranged from significant managerial cost increases (due to number of additional managers), to people not recognising who their boss is. Which is not surprising given the number of bosses and dotted lines that appear in the most complicated organisations? Mapping the changes in organisational structure and how many dotted lines exist for matrix managers would highlight how the creation of additional centralised functional roles adds significantly to the complexity of the matrix. A possible solution to the problems identified with the matrix was the development of the transnational organisation structure.

The Transnational Structure

The transnational models as discussed by Daft (2007) and Ghoshal and Bartlett (1990) were used to describe how large complex multinationals such as Philips NV were managing their operations. The transnational approach relies on the building of three strategic capabilities: global-scale efficiency and competitiveness; national level responsiveness and flexibility; cross market capacity to leverage learning on a worldwide basis. Traditional organisations structured along product or geographical lines struggle to manage all three strategic capabilities at the same time.

The transnational organisation does not promote the notion of the 'universal global manager' but rather promote the need for three types of specialised manager. The first type of manager is the 'business manager' or product division manager whose prime responsibilities are as a strategist, architect and coordinator. The key tasks require the recognition of opportunities and having the necessary skills to coordinate activities and capabilities across the globe to create an integrated worldwide operation. The country manager is the second type of manager referred to and their prime responsibilities are to be the sensor, builder and contributor for the organisation. Also known as the national subsidiary manager they have to be sensitive and responsive to the local market.

The final specialised manager type is the 'functional manager' whose prime responsibilities are as a scanner; cross pollinator; and champion. As the country manager develops the local needs and products for the local markets it is the functional manager's role to break down any barriers that prevent the cross pollination of ideas and innovation. Building an organisation that can use learning to create a spread of knowledge and innovation requires a skill for transferring specialised knowledge across boarders. P&G is a huge complex organisation that has many specialised country development centres. Often the same product would be developed in two different locations without either country lab being aware. In a response to competitive threats P&G set up European technical teams and built formal and informal communication networks where like minded technical managers could exchange information. Later centralised R&D functions were created and the spread of best practices became more prevalent.

Opportunities arose with the Electrolux growth and acquisition plans in the 1980s. The business structure had started to resemble a patch work quilt and whilst not wanting to lose the local feel of the product, scales of economy became quickly apparent due to the similarities in the design and function of the products. During the Electrolux strategy review the 'localness' that the consumers needed was found to be related more to the sales, distribution and brand name. This allowed Electrolux to develop a plan to gain the global economies of scale in manufacturing but also leave in tact the 'local' consumer interface with customers.

The organogram below (fig 4.0) indicates how Rexam could operate a transnational structure. The main difference from the existing structure is the management of plastics and beverage cans from the same regional centre.

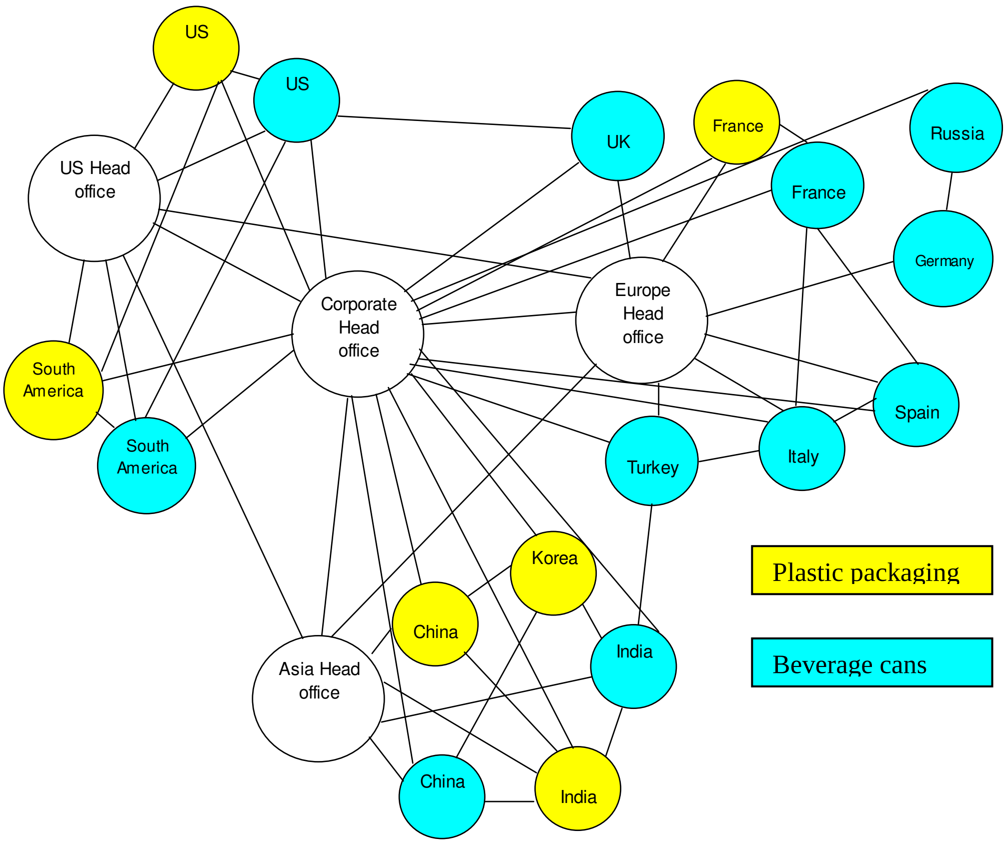


Fig 4.0 – The transnational organogram

6. Chapter Summary

The earlier mechanistic and more recent organic management models have been presented as a strategic option for the MNC to consider during the review/development of the company's organisational structure. Before companies get to that point however, the MNC should decide which strategic perspectives fit the organisations strategy. With a clearly defined perspective (local consumer contact, operational efficiency or new technology/product deployment) MNCs can consider the type of organisational structure they wish to use. Depending upon the core values and management principles companies can balance the amount of operational distance given to business units. As discussed earlier, organisations with an operational efficiency perspective may prefer a mechanistic approach and a centralised management structure and very little regional autonomy.

The trend towards matrix and transnational structures has been increasing since the 1980s as companies have seen the need to improve effective use of resources, response to the market environment and communication. The balance between the attributes of the matrix and the efficiency of the traditional (functional, product, geographic) structures is still an important consideration. We still need to understand the advantages and disadvantages of the structures, before we assess what an effective structure could look like for an organisation.

We briefly reviewed the matrix structure for Rexam and demonstrated how easy changes in the central management structure can impact the lines of authority and communication for the managers within the matrix. In the final chapters I will present how Rexam can review its structure for optimal efficiency.

Rexam is organisationally structured with a mixed matrix approach which appears to be aligned with the business strategy. The need for economies of scale for the supply chain and operations is satisfied with some centralisation and a functional structure. The local customer relationships are satisfied with regional and local sales. The key to success is designing the most efficient matrix which leverages advantage by joining functions and regions but at the same time does not add unnecessary cost or complexity. The next chapter will discuss in more detail how efficient structures can be designed and managed. In practice the transnational structure would not yield the synergies for Rexam that other companies leverage through similar technology and efficient supply chains. This conclusion will be discussed in more detail in later chapters.

Chapter 2 – Designing the Organisational Structure

In this chapter I will discuss and assess firstly the congruence model popularised by Nadler and Tushman (1997) which outlines the challenges of organisational design with respect to the external environment and the way people and process interact within the organisation. Secondly the organisational effectiveness assessment tools as presented by Goold and Campbell (2002) will be discussed and compared to the current positioning of Rexam. Assessment triggers will be presented as a tool that can proactively assess when an organisational redesign should be considered. A case study review of Unilever (one of the most studied organisational structures) will provide an overview to how the largest corporations have had to evolve and restructure to suit their strategy. The chapter summary presents new potential business process.

1. The Congruence Model

Before reorganising / designing organisational structures companies should consider the dynamics and performance of the enterprise. The congruence model attempts to simplify the inherent complications and complexities within an organisation. By breaking down these complexities to manageable compartments leaders can understand and design structures with organisational behaviour and performance in mind.

The congruence model was developed in the 1960s with researchers from Harvard and Michigan Universities studying human organisations and naturally occurring systems. The essence of the model developed was a system that uses outputs to alter inputs to refine the internal processes. The basic level of the model has the stages of input, transformation process and outputs. The inputs are made up of the components – external environment, resources and history. The external environment considers the markets, economic and social forces. All organisations are influenced by the external environment. Market saturation for example may lead companies to change strategy and diversify or consolidate and vertically integrate for example. The resource component considers all accessible assets such as capital, technology, employees and information.

History suggests that companies are still influenced by events that occurred in the past. Previous examples of failed relationships with other companies may influence a strategy of self sufficiency in the future. In the model shown below (fig 5.0) we can see how the inputs influence the strategy. The corporate strategy involves portfolio questions about which markets the company should compete in. The business related decisions of customer selection, value proposition, strategic control and scope influence the organisational structure and deployment of resources that will enable the strategy to achieve its results (the outputs). The outputs are measured as revenues, profits and shareholder returns. Individual measurements within the model consider the behaviour performance within the organisation.

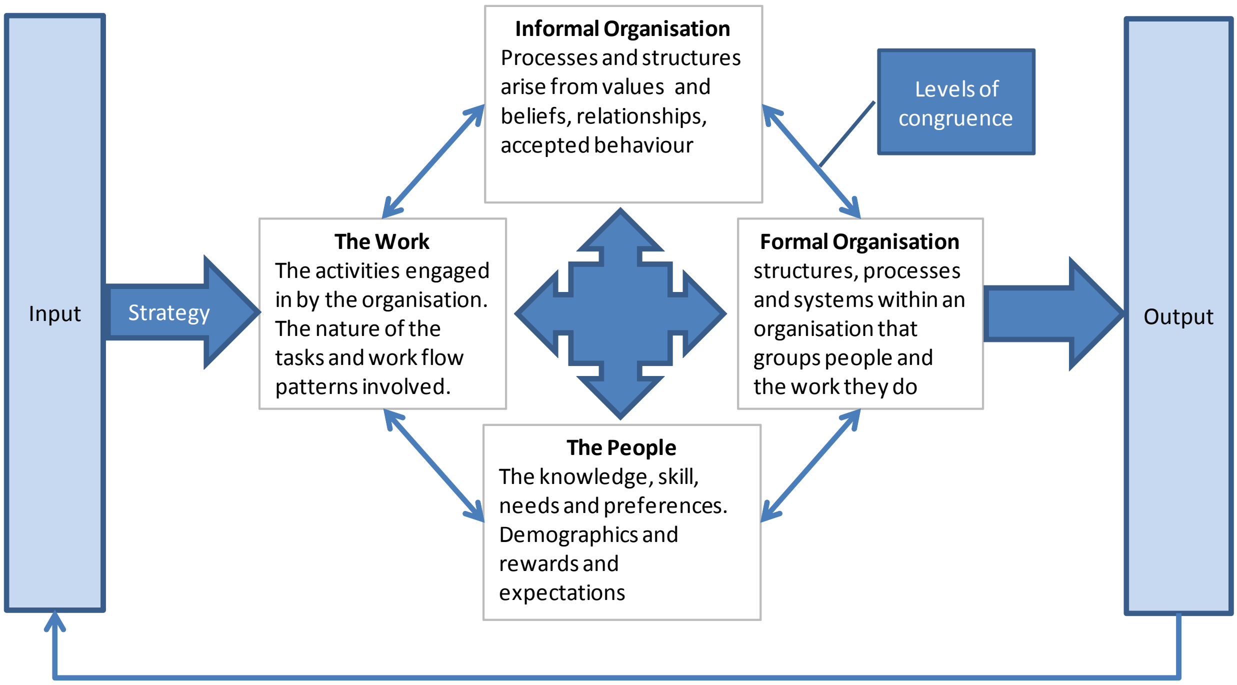


Fig 5.0 – The congruence model

From an organisational structure design perspective we are interested in the four boxes within the model that make up the 'transformation process.' These boxes are known as the key organisational components and the tighter the 'fit' of these components with each other the greater the congruence and hence the better the performance.

It the next section I will discuss how these concepts are linked to the assessment of good organisational design. Linking people and formal structures and procedures positively can have an influence on the working environment which the assessment states is needed to be considered a good design.

2. Designing Effective Organisational Structures

Organisations rarely systematically and methodically plan how the organisational structure should be to fit the company strategy. Goold and Campbell (2002) stated –

> "Creating a new organisational structure is one of the toughest – and most politically explosive – challenges that an executive faces".

Aspects of business management that involve people and rationality are always the most difficult. Changing reporting lines, roles and responsibilities needs a sensitive approach if the organisation is to get the best fit. Often the organisational politics and power play (control of power and authority) can potentially derail a good initiative to improve organisational effectiveness.

Goold and Campbell (2002) presented the "nine tests" as a tool kit for assessing and modifying the organisational structure. The first four tests "fit tests" provide a review for the organisation, comparing structural alignment with strategy, talent pool and situation. The next five tests "good design" were developed to help companies refine potential structural designs. These tests are designed to help managers set the right amount of hierarchy, empowerment and control whilst providing a structure that still fosters initiative, creativity, networking and flexibility. A brief overview of the test is as follows –

1) Getting The Fit Right – is asking if the company in its current structure diverts enough management attention to the strategies that provide competitive advantage. By asking the fundamental questions of which markets to operate in and how we gain advantages over the competition, an organisation can review if the current structure helps or impedes the market strategy.

For the assessment of sufficient attention Goold and Campbell's general rule of thumb states that if a market segment is attended to by a single business unit then it is sufficient. If no single business unit is attending the segment then it is insufficient. In practice this clear distinction appears unbalanced. Most segments will be attended to by a business unit but that business unit may also attend to other segments.

We can see this clearly in the Rexam matrix structure where supply chain has a complex structure with each matrix manager having potentially twenty six dotted lines to each plant. How a business unit devotes the right amount of attention to a particular segment depends upon the priority from the senior line managers and resources available. Geographic and language barriers can also effect the time and attention given to business units.

2) The Parenting Advantage – Is provided by the company's parenting propositions. Which corporate level activities provide real value to the organisation? These propositions may be narrow in scope but they create an advantage when aligned to the business units. For example a business unit that has limited access and support to R&D may not be able to execute its strategy of product innovation and new product development. The R&D departments may be a central function and not responsive enough.

As discussed earlier the transnational structure favoured by P&G has many R&D centres around the world which potentially result in the same product being developed in two different locations. In a response to these issues P&G set up European technical teams and built formal and informal communication networks which prevented duplication and utilised resources more efficiently.

3) The People Test – reviews the skills and attitudes of the members of the organisation. Companies can easily often blame the structure if the organisation does not yield the results required. Fitting the people to the structure is as important as fitting the structure to the strategy. By starting with the most senior managers companies should review if the right skill sets are present.

For example setting up a manufacturing division with a strategy of low cost production would be better suited to someone with operations experience. The next level of management is equally important as the pivotal roles (heads of functions) in the structure should be filled with talented employees who can work cross functionally. A key aspect of the people review is ensuring that the environment is one conducive for decision making, authority, creativity, teamwork and is both rewarding and motivational with clear goals and objectives. Inevitably there could be winners and losers and part of the review could highlight the need to manage influential losers.

4) The Feasibility Test – Reviews the constraints that may impede the organisational design. MNCs conducting business in certain countries may need to set up joint ventures which can effect the organisational structure. Other support structures such as IM and Engineering may be centrally structured with an organisational fit for the home markets structure. Financial reporting systems (possibly product based) may not suit a regional reporting structure.

5) Refining the Design – considers the impact the design has on the specialist cultures within the organisation. For example, if innovation is headed by mass production there could be a misfit of cultures as the mass production cultures dominate the specialists. The specialised departments may need some form of segregation within the structure if they are to meet the overall company objectives.

6) The Difficult-Links Test – assesses how the linkages required in the organisation function together. Top managers should leave this to the local functional managers to work out how best to collaborate for the common goal (as long as one exists). Collaboration between managers with different objectives could be more successful without senior arbitration. Linkages are formed at different parts of the organisations structure and take the basic form of - knowledge links and sharing best practices, sharing resources, pooling power (negotiating) links, coordinating strategy links for two or more business units, vertical integration links for the flow of products or services, and new business creation links.

The effect of lower production volume in Rexam's manufacturing plants can have a significant effect on the fixed cost absorption of the highly capital intensive process. However the sales strategy to increase ROS and maintain margins could cause conflicts of interest with operational managers. Sales executives measured on customer margins would not be synchronised with the objectives of reduced cost per unit for the operational managers. Companies can alleviate these conflicts through modification of the incentives and personal performance measurements. Other ways of dealing with the difficult to manage linkages is by merging the departments under one structure or more radically setting up a new structure.

7) The Redundant Hierarchy Test – Asks if the organisation has too many parent levels that do not balance the 'value adding aspects' vs. the 'cost of the parental structure' dilemma. The general rule of thumb applied by Goold and Lawrence (2002) is that a parent should add at least 10% additional value to the business unit. We can see how this test relates to the parenting advantage and asks the organisation to not only identify the advantages but now to review how and where they fit into the organisation. The parent of the business unit should be capable of coordinating all the parenting advantages from all of the corporate functions. For a manufacturing unit these advantages may occur through access to R&D, new technology, human resources and project management.

The balance has to be assessed between the number of parents and business units expecting some level of advantage. Not enough parenting advantage can leave a business exposed and excessive parenting can cause an overpowering effect and appear as interference and a lack of trust. If a parent advantage should contribute ten to twenty percent of the value then maybe the same level of time commitment is expected from that parent?

8) The Accountability Test – ensures the design is supporting effective controls over its performance. Do units with shared responsibilities have defined roles and measures within the structure? The notion that to be accountable you have to be responsible really matters in this key test. In matrix organisations this can be a common source of problems and politicking. Who is responsible for financial performance of a business unit if the sales executive reports to a centralised function? With the appropriate measures we can still assess the operational performance of a business unit (productivity, cost per unit, quality, etc) without the influence of sales performance. These measures need to be clearly defined and managers need to be aware how the structural linkages affect the measures of performance.

9) The Flexibility Test – assesses the design structure for the facilitation of introducing new strategies for the organisation. This test considers the structure as well as the organisational capability. The people test discussed earlier will determine how the structure (and people within) reacts to a new initiative or strategy.

In times of a global recession many companies tend to reduce the amount of R&D, support functions and project engineers. Sometimes whole departments can be eliminated or consolidated into others whether they strategically fit or not. Whilst it is true that a company's organisational structure can "creep" over time as it moves out of strategic alignment with the environment, why does the structure only get reviewed when times get hard? This test is quite simple and can be assessed by setting some strategic scenarios, then challenging how the current structure and organisation can address these scenarios. Obviously carrying a structure that can address a large number of scenarios will carry a potentially large overhead. The level of flexibility will be measured against how many gaps remain in the organisational structure for any given strategy scenario.

Most companies will probably already have the answers to most of these tests. People skills, flexibility and parenting advantages should be visible in most HR development and assessment plans. Establishing where the difficult links are, how the accountability is administered and where the redundant hierarchy exists will require a methodical structured approach involving team work and process flow tools (process maps etc). Later in this report I will survey matrix managers within Rexam and apply these tests to the organisational structure. Before we get to that point we need to understand what the triggers for structural change are. As discussed earlier most evidence suggests financial pressure or poorer returns in certain segments or parts of the business. Surely a proactive approach to organisational structure would be more productive?

3. Design Assessment Triggers and Lean Methodology

The processes that are now used in organisations have origins going back the 1950s when the Toyota automotive company used the term "Lean" meaning – the ability to achieve more with less by continually reducing waste (www.manufacturinginstitute.co.uk).

By using the five key principles that are used extensively in manufacturing companies can apply the same logic and use many of the tools for organisational restructuring. The key principles of lean for an organisation are –

1. *Having an understanding of the value of the offering from a customer's perspective.*
2. Being able to identify value adding steps in your own processes (value steam).
3. Creation and implementation of action plans that create value.
4. Manufacturing what is required by the customer just in time (JIT).
5. Continually reviewing the processes and eliminating further layers of waste.

We can see how the five principles could be applied to a business organisational structure review. Understanding the customer fit and perspective of the company, identify value, creating action plans to implement changes and eliminating waste at all levels of the hierarchy. One of the key aspects of the lean organisation is the development of control limits. Key performance indicators (KPIs) are continually reviewed to ensure the process and organisation is meeting expectations.

DuPont the chemicals manufacturer have developed a trigger based organisational assessment system (CLC 2002) that proactively identifies when changes are necessary. The system uses triggers rather than the more traditional calendar review during changes of company strategy.

The key steps in the process are –

1. Strategic Criteria – Review the circumstances that could impact the validity of the strategic plans. The circumstances could be missed financial performance or the investment of capital in a new market or project.
2. Set the thresholds for the triggers – This could be missed financial performance (positive or negative). Considerations would need to be made for seasonality, exceptional circumstances or market trends.
3. Determine the frequency of data collection – For financial and none financial measures which again takes into account market volatility.
4. Select the review committee – To discuss, plan and execute organisational reviews following trigger data analysis. The team should be made up from executives, BU general managers, marketing and strategists.

The organisation design assessment triggers are categorised into three sub groups – strategic, financial and human capital. The strategic and financial measures review milestones in the strategic plans. For example did the BU capture a defined market share by a certain time? Was the financial performance of a strategic objective as planned? Other financial triggers include capital projects of more than 20% the turnover of the BU, competitive position and market share analysis and acquisition/divestment on decisions impacting 30% of the sales of a BU.

Human capital triggers are measured in the next category to ensure the people resources are aligned to the strategy. The staffing composition, turnover, absence and underutilisation measures are use to determine the structural 'fit'. If there is a high turnover, people may be demotivated and therefore less productive. In this section I have introduced the concept of lean tools for the setting of triggers and formulating a structured review and control process. In the next section I will present how companies can asses what people actually do within the organisation with the use of process mapping.

4. Process Mapping and Workflows

One of the major criticisms of the restructuring process is that senior executives often make these changes without clearly understanding what tasks people carry out in the hierarchy (Humes 1993). Because the very nature of structural change is a sensitive one involving people and emotions senior managers tend to avoid the conflict / emotional stress until the new structure is announced. This makes testing the organisation very difficult if executives are aiming to test flexibility, organisational fit and people skills etc. Without consultation with the members of the organisation mistrust will always be present and demotivated employees are not the desired result.

Results from the CLA survey (2002) suggest that employee performance dips after a structural redesign. Final performance measures outweigh employee improvement measures. Out of the companies surveyed 90% hit their cost cutting targets after one year whilst only 60% of the employee targets are reached. This is quite understandable as cost cutting is calculable, but emotional measures are much more difficult to calculate. Only one third of companies surveyed effectively define the structural workflows. One of these is Petco (US based pet products retailer) who developed their own system for process mapping the workflows with a team approach.

Petco depersonalises the mapping activities and focuses on the business goals and customer satisfaction criteria. They employ a number of Business Process Leads (BPLs) that partner with the business unit heads to make the high level workflows. These workflows can be simplified strategic objectives such as reducing working capital. One of the processes involved in the flow may be the planning of raw materials which is likely to become more detailed involving a number of departments and people possibly working within a matrix structure. Petco claims to obtain 80% of the information required to enable a more accurate assessment of workflows. A team work approach to reviewing tasks can remove some of the emotion from employees and encouraging team members to participate is the best way to get buy in to any new organisational structure.

Rexam has been using process mapping tools for many years in manufacturing and is recently seeing the benefits by applying the techniques to administrative tasks in the organisation. In the next section I will present how the current mapping processes can have an influence on the structural designs of the metal planning organisation.

Relationship Mapping

The relationship map illustrated below (fig 6.0) defines the business functions down the left hand side. Within each function there are other process owners that could all potentially interact with the metal planner. The relationships upstream and downstream are classified by ‘customer’ (plant instructions what to order) and ‘supplier’ (expected supply volumes required). The interface with supplier and customer should be considered when reviewing the process map improvement opportunities. By establishing the relationships we can review the linkages, communication paths and define where the responsibility resides for the various tasks.

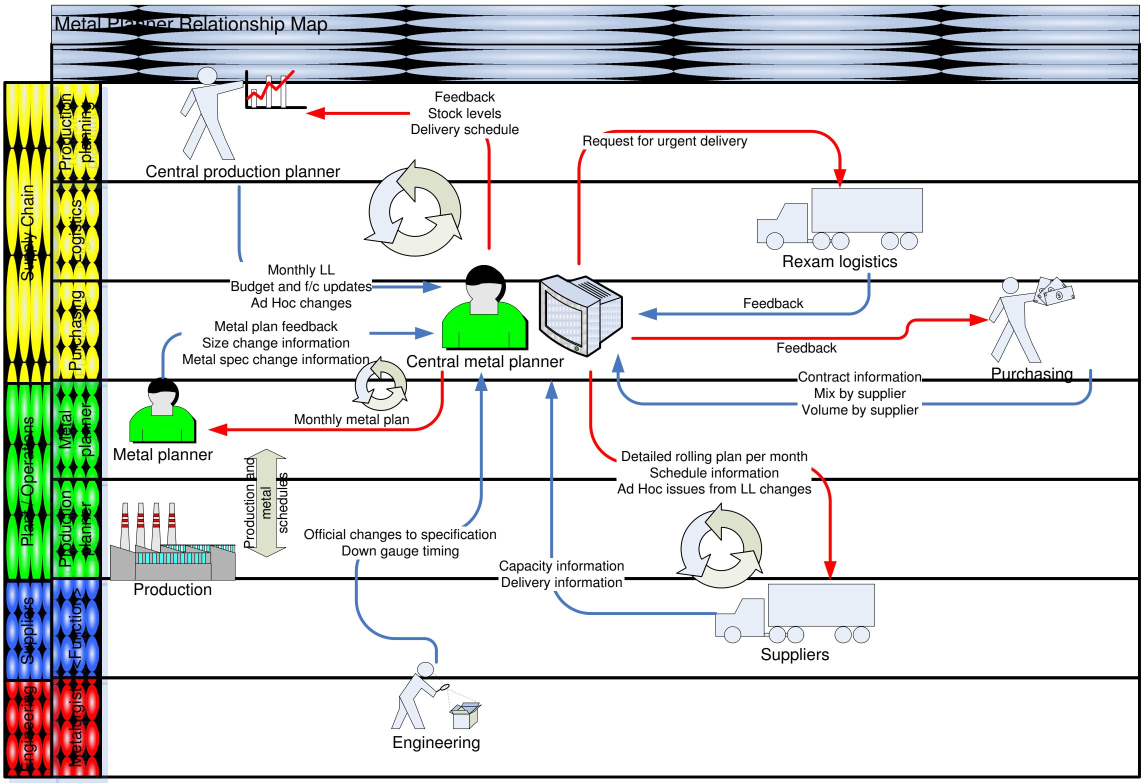


Fig 6.0 – The relationship map

The process map below (fig 7.0) details all the tasks conducted by the group and metal planner to enable the process to work. The objective is simple – 'get the right amount of metal to the right plant in the right specification on time without holding excessive inventory'.

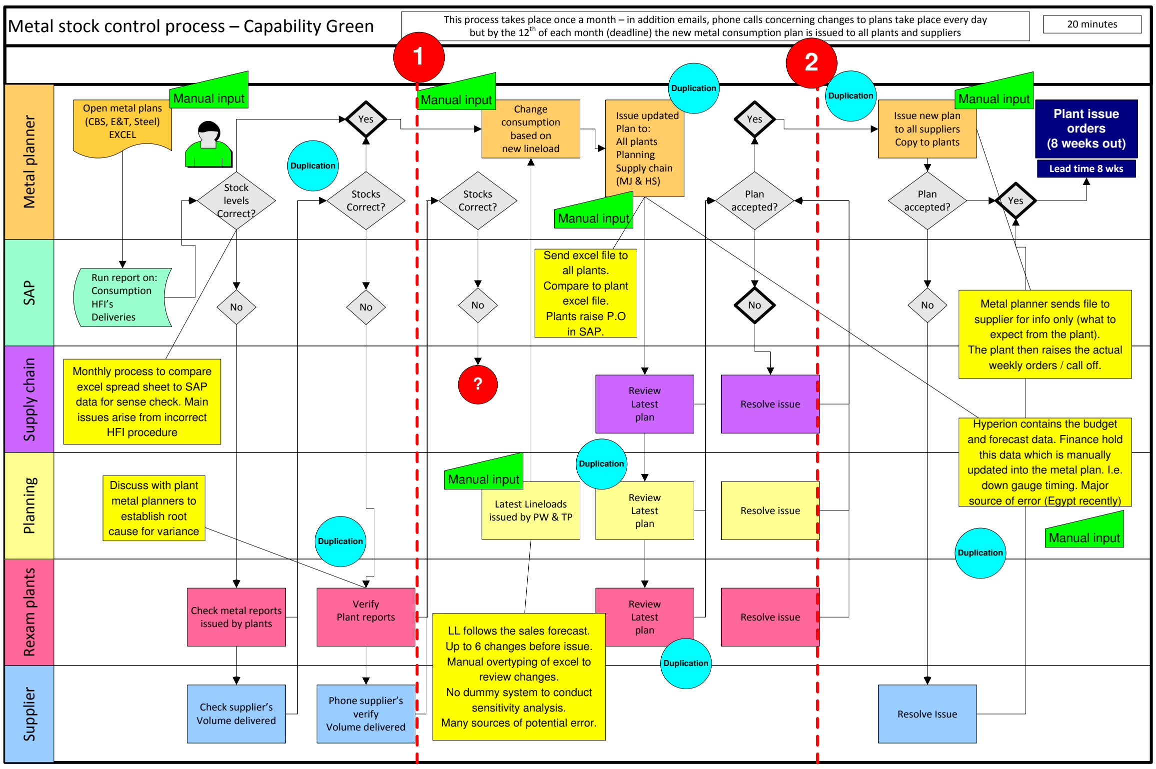


Fig 7.0 – The process map

This map is excessively complex due to a number of historical reasons. We can see on the map where the duplication of communications and tasks occur. There are also accountability issues as the key inputs are supplied from managers within the matrix who all have different functional reporting lines. The centralised structure of the division creates strong functional lines and hence a complex matrix organisation.

As presented in chapter one these functional linkages reach across twenty six manufacturing plants. The effect of a restructure in the central office that involves creating another specialised function is felt across these plants creating yet more functional communication challenges. If these complexities can exist in companies with a small product portfolio and with a relatively small number of international customers, then we can appreciate the challenges of managing within a matrix organisation within global giants such as Unilever.

5. Unilever – Structure to Execute Strategy

In the 1930s Unilever was created from the merger of two European companies (Lever Brothers – UK and Van den Berghs – Netherlands) which resulted in Unilever's well known decentralised organisational structure. In the 1960s country managers marketed their own brands and manufactured their own products in one of the most diversified companies in the world. The company was described by the CEO at the time as several fleets of different sized ships sailing all over the place doing very different things. Many of the 'best practices' of organisational management were taken from Unilever case studies. Innovation, autonomous work groups, accountability and individual profit centres were key aspects of the organisation.

In 2001 Unilever sales topped €51bn ranking it 79th in the business week global 1000. By 2005 sales had dropped to €37bn and growth and profits had stagnated to such an extent the company announced profit warnings. Smith (2009) in collaboration with Patrick Cescau (CEO at Unilever) charted the execution of Unilever's new strategy that began in 2005 after the profit warning. The first step in the process was the recognition of the failure of the previous company strategy. In 2000 Unilever announced its 'Path to Growth' strategy which aimed to evolve the company from a diverse country specific organisation to a competitive regionally structured company. During these five years the company reduced the number of brands form 1900 to 400 divesting and acquiring businesses along the way. Stronger regional teams were implemented with the aim of integrating country operations. The local market intimacy was left in tact but the focus on efficient supply chains and marketing expertise was high on the agenda.

So why did the process fail and actual sales decrease over the period? The answer really boiled down to execution and the ability to implement changes in strategy quickly. Competition was emerging and specializing in many of the areas that Unilever operated in. The question being asked of Unilever was ‘how many fronts can they do battle on’? Whilst the strategy was still applicable the CEO (Cescau) set about reinstating it with three essential goals. He needed to unite the people of Unilever and to do this he set the goal of creating ‘one Unilever’, secondly he wanted to streamline the organisational structure to deploy the strategy and finally develop an execution process that delivered and sustained the strategy.

The organisational structure had recently been rationalised into two divisions (Foods and Home and Personal Care – HPC) but now the objective was to create one Unilever. To achieve this Unilever created the ‘One Unilever Operating Framework’. The operating framework detailed how Unilever executives, functional heads and regional managers would work together on strategy into action plans (SIAs). Unilever had realised that the previous autonomous environment had created too many theoretical managers and was not encouraging cross function / region cooperation. The model (fig 8.0) below shows how the company managed to organise a simplified structure whilst retaining and encouraging cross matrix management. Participation was emphasised to category managers and included in their incentive plans. Their contribution and involvement in the regional and executive SIAs was now part of their role and responsibility.

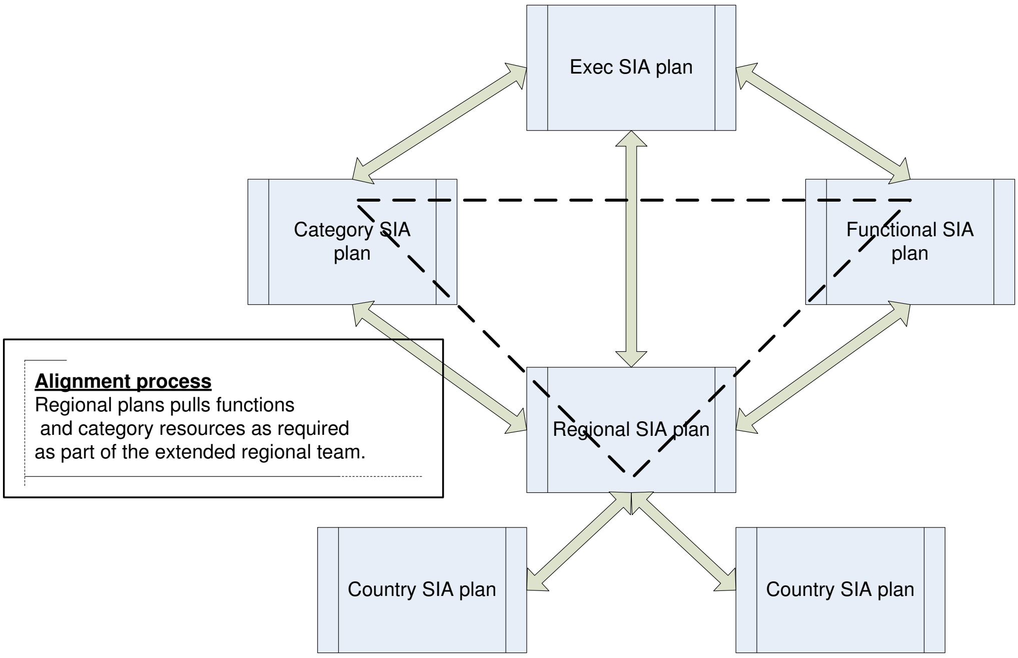


Fig 8.0 – The Unilever SIA model

Unilever Before and After

Since the merger of the two companies in 1930 Unilever had operated with two chairmen. This was the first change to one group CEO. Divisional leadership teams were replaced with a single Unilever executive management team (UEX).

The twelve business groups that were responsible for their own brand development and market launches were replaced with two global categories (food and HPC) and three geographic regions (Americas, Asia and Europe). Local R&D was replaced with global innovation managed by each global category. Customer interfaces were aligned so country accounts were supported by country managers and international customers by international managers. Business partners in functional support (HR, finance, IT) now reported into global business functions whilst still supporting the local business teams. The Unilever framework developed was communicated at great length to all employees of the organisation and the design was based on the five principles below –

Consistent design – Unilever created a common nomenclature for all its business leaders and managers. Job titles would be the same across all the divisions. At the executive level regional leaders would be titled Regional President, Category leaders – Category President and so. This common approach was cascaded down the organisation to managerial level so people could respect and understand an employee’s position within the ‘one Unilever’ organisation.

Single point accountability – Leaders of the three perspectives (regional, category, and functional) of the organisation all have clear responsibilities that do not overlap, but they are complimentary and reinforced by shared objectives.

Balance – The design is such that the three organisations of the UEX (regional, category, and functional) all have equal power and they are led by people with similar power.

Cost effective – The new organisation should be more cost effective in terms of management costs. Productivity and headcounts should be in line with competitors and external benchmarks.

Interdependence – Mindset and behaviours will be focused on winning in the market place with a common set of principles shared with others.

Source – The Unilever operating framework- 2005 (not publicly referenced)

Quick and effective implementation of strategies was identified as the key to success. Unilever made changes to the organisational structure and then reviewed the results. One key aspect of the operating framework was the regular structured meeting agendas set up to review objectives and progress towards targets. These regular review meetings have defined KPIs to measure progress. Unilever presents many of the organisational restructuring KPIs in the investors section (www.unilever.com/investorrelations/) by means of historical charts from 2001 to 2010.

The return to growth for the organisation can be seen in the table below (fig 9.0). Other notable KPI improvements in the period 2001 to 2010 are – the reduction of employees from 280,000 to 165,000, turnover per employee increasing from €187,000 to €268,000 and staff costs reducing from €7.3bn to €5.6bn.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Turnover €Bn	52	49	43	40	37	38	40	40.5	40	44

Fig 9.0 – Unilever sales 2001 - 2010

Discussion

The Unilever case highlights the importance of the CEO understanding the business and being close to the ground. When a seemingly good strategy failed Cescau was able to see further beyond the results and initiate a strategy of reorganisation. In this case we can agree with Chandler that structure followed strategy. The previous Unilever structure was over complicated, slow to react, not cohesive in addressing global objectives and hence it could not support the growth strategy.

The congruence model can really be envisaged in this case study, as the diverse nature of the business with it's 'fleet of floating ships' could have resulted in subcultures within the many different operating units. The challenge of creating 'one Unilever' would almost certainly require higher levels of congruence between the formal and informal networks.

Comparing Unilever's evolution with Goold and Campbell's nine tests it is clear that the reorganisation strategy accomplished these tests. Recognition of the poor strategic fit was recognised and addressed with the introduction of the operating framework. People tests were concluded with the assessment that there were not enough implementers within the organisation. Redundant hierarchy and structural refinement were key aspects reviewed and the difficult links were addressed with the clearly defined roles and responsibilities as laid out in the operating framework. Finally supporting all this with a rigorous process of strategy objectives and feedback meetings has all the attributes of Hoshin Kanri planning and a lean continuous improvement environment.

6. Chapter Summary

The congruence model offers a way to think about the organisational dynamics and use the analysis as a mental checklist. When used with a systematic approach it can help pinpoint issues or sources where organisational failure occurs.

By segmenting the internal components we can review in computer terms how the ‘hardware’ (formal rules and work) fits with the ‘software’ (people and informal organisation). A high level of congruence is the objective and feedback loops from the outputs should demonstrate success. Designing effective organisations can start with the basic assessments from comparing and measuring the current organisational structure against the criteria presented by Goold and Campbell (2002). The online survey discussed and analysed in chapter four demonstrates how qualitative data can be generated. When we ask about a focus on strategy and time available to do so, we can see from the data after surveying individuals within the organisation how much time they actually have and more importantly how much they perceive they need to be effective.

The Rexam survey (chapter four) also highlights how complex organisations can become without departmental managers knowing. We can measure the amount of duplication and how many linkages there are in any particular organisational structure. The lean principles used for process mapping of work flows of tasks are an effective tool for simplifying organisational structures. Understanding the relationships within a group of tasks is useful to feedback into the congruence model. If we can reduce complexity and help relationships by setting clear goals, objectives and accountability we can create the environment necessary for effective performance.

In the next chapter I will present the competitive strategies for Rexam. By reviewing the organisational structure of Rexam’s competitors we can apply the models discussed in this chapter to assess where potential competitive advantage could be gained.

Chapter 3 – Rexam Strategy and Structure

If structure follows strategy we now need to understand the strategic intent for Rexam in the emerging markets. Firstly by understanding the competitive landscape we can access the feasibility of the strategies before considering how best to support this with an organisational structure. This section will focus on the beverage can sectors for Rexam and the two main global competitors (Crown and Ball). As the beverage can market accounts for a large percentage of sales for these companies the importance of strategic fit and structural organisation is paramount.

1. The Beverage Can Market and Footprint

The global beverage can market is 272bn cans per annum and is still growing at an average rate of 2% per annum. The sales by geographic region and the growth rates for 2009 can be seen below (fig 10.0). The emerging markets are strategically important to all the beverage can makers with examples of exceptional growth in Brazil (16-18%) illustrating how important first mover advantages are in these markets.

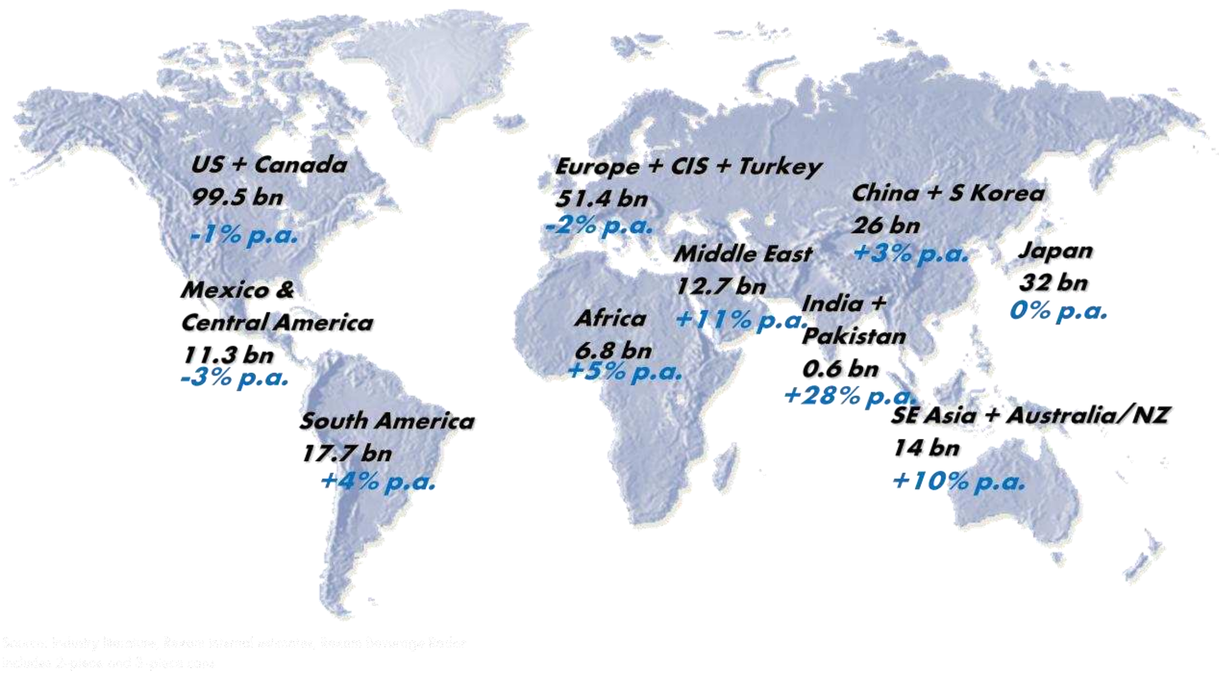


Fig 10.0 – Global beverage cans sales by geography.

Source: Industry literature, Rexam internal estimates, Rexam Beverage Radar

The Emerging Markets

The ‘Big three’ beverage can producers have stated strategic intent to capitalise on the growth regions. In the following analysis I have used global presence (locations) as the measure. The data compiled does not take into account the actual sales or production from each plant and therefore no assumption of market share as a percentage is made.

In this analysis I have segmented the global market into five subgroups for discussion. The US and Europe are the largest and most developed markets, the much discussed BRIC countries, the Middle East and North Africa (MENA) and finally the rest of world (ROW). Rexam states that 30% of its global business is now conducted in the emerging markets (Rexam financial statement 2010), however in the beverage can sector 37% of the plants are outside of the US and Europe (fig 11.0). Crown states 25% of its global business is in the emerging markets (Crown financial statement 2010); with 55% of its beverage can plants outside the US and Europe. Ball does not state its global position for emerging markets but we can observe that only 23% of its beverage can plants are outside of the US and Europe (Ball.com).

	Annual Sales $Bn	**% of business in beverages cans**	**% of beverage can plants outside US and Europe**
Crown	7.9	51	55
Rexam	7.84	77	37
Ball	7.63	73	23

Fig 11.0 – World beverage can sales distribution

Beverage Can Manufacture – Global Plant Distribution

The USA is the single largest market globally (fig 12.0) with a consumption rate of 339 servings per capita per annum. Therefore growth is now perceived to come from the emerging markets where the income per capita is expected to increase and hence increase the consumption rates. Brazil has seen the market grow by 16% to 77 cans per capita and China is still relatively low at 16 cans per capita.

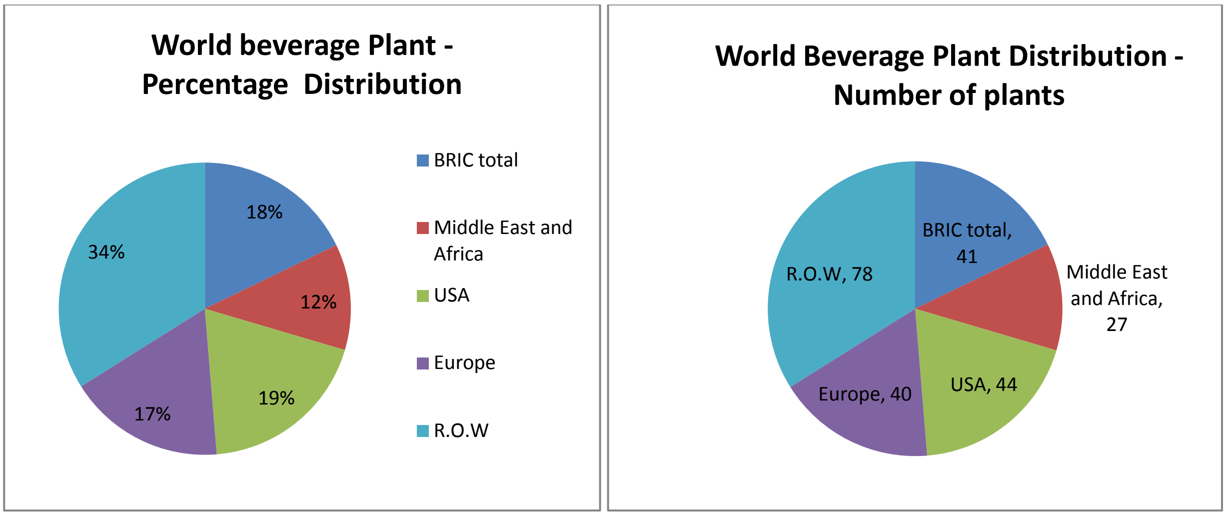


Fig 12.0 – Global plant distribution (sources – Rexam internal data)

Distribution by Region

The 'Big three' beverage can manufacturers account for 50% of the world total of can plants (fig 13.0 and 14.0). The chart below shows that the 'Big three' have much stronger presence the US and Europe, but also have a weaker presence in the MENA region and the ROW (predominantly Japan and SE Asia).

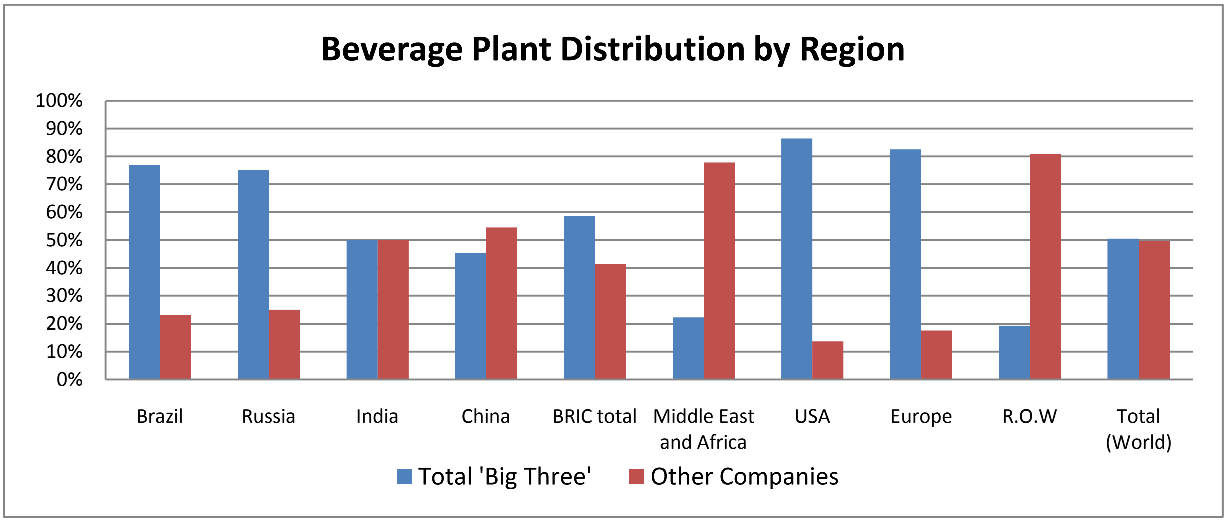


Fig 13.0 – Regional plant distribution (percentage comparison of 'the big three')

We can see from the distribution of global can plants that many of the 'other companies' are located outside of the geographical regions we having been discussing and are located in ROW locations. Penetration into the ME will be more difficult as a minority player but first mover market dominance in BRIC countries should be a priority.

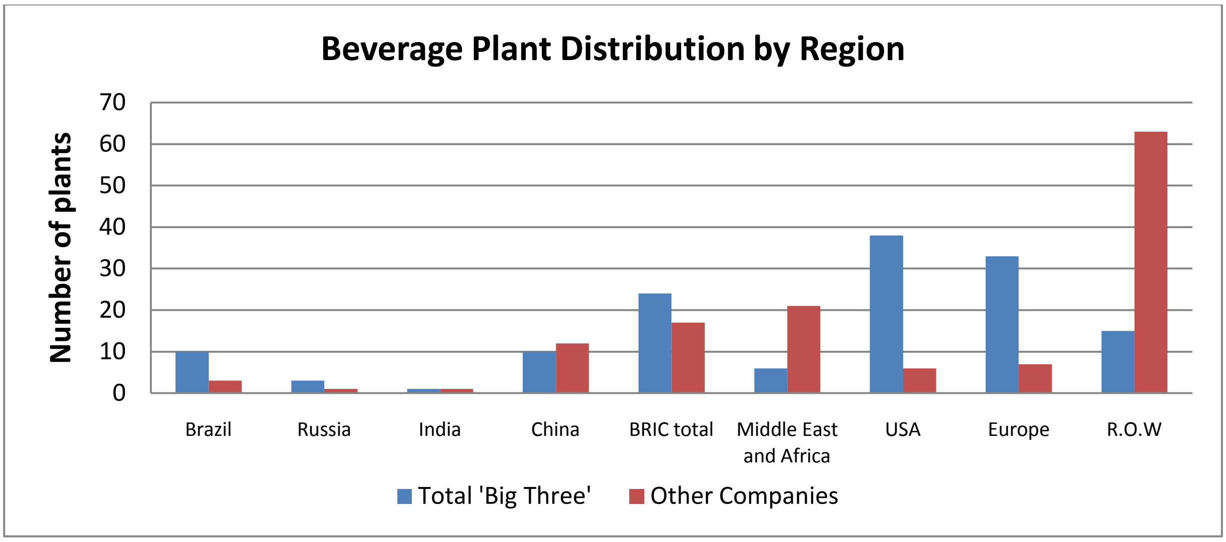
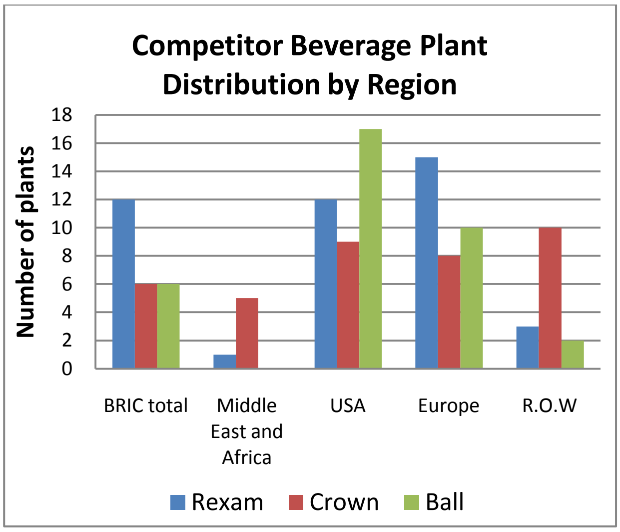


Fig 14.0 – Regional plant distribution (number of plants)

Global Distribution of the 'Big Three' and the BRIC Countries

The final stage of this analysis presents the distribution of the 'big three' beverage can plant locations by global geographical region and a more detailed review of the potentially faster growing BRIC countries (fig 15.0).

Rexam has a competitive advantage in Brazil and Russia but only has a minor presence in the Middle East and China. Ball are particularly strong in North American but as mentioned earlier weaker outside of the US and Europe. Crown has the most diverse location of can plants globally with a strong presence in the ROW regions.



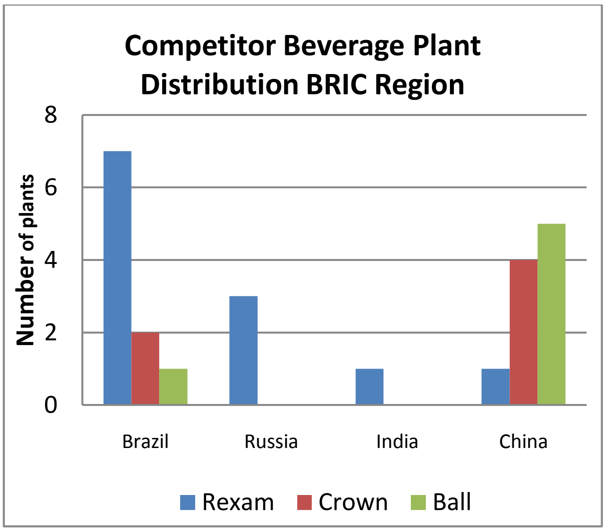


Fig 15.0 – Regional and BRIC Competitor plant distribution

2. Organisational Structures

In this section I will compare the organisational structures of Rexam and Crown. I have neglected to compare Ball at this point because of the lower penetration into emerging markets and ROW. Crown also publicly states its success in making strong returns from these regions and 72% of Crown sales come from outside of the US. Later in this section I will analyse the key aspects of these structures comparing them to the effective organisational design criteria outlined and discussed in the previous chapters.

Rexam Organisational Structure

Rexam's Beverage Can Division is geographically divided into three sectors which financially report in to corporate H.O. The North American sector contains 12 plants, South American 10 plants and Europe and Asia 21. The North and South American sectors have a large presence within only two countries (North America and Brazil account for 19 of the combined 21 plants). Therefore these sectors have common cultures and languages which potentially enable a more flexible use of resources. The Europe and Asia sector (fig 16.0) has a maximum of three plants in any one country and has a spread across twelve different countries in total, which leads to a more diverse cultural mix. The emerging markets and BRIC countries are currently managed within two separate sectors.

Brazil is managed within the South Americas region with an autonomous structure that adequately facilitates the administration of the business. China, India and Egypt are managed within two different manufacturing regions within the Europe and Asia division. Managers from different geographical locations have the responsibility for the management of these plants in a complex matrix structure that consists of functional (central) and regional managers.

Russia is structured under manufacturing region four and has a divisional office based in Moscow with a General Manager controlling finance and sales. Manufacturing is administered from the UK with strong links (dotted lines) to the GM in Moscow.

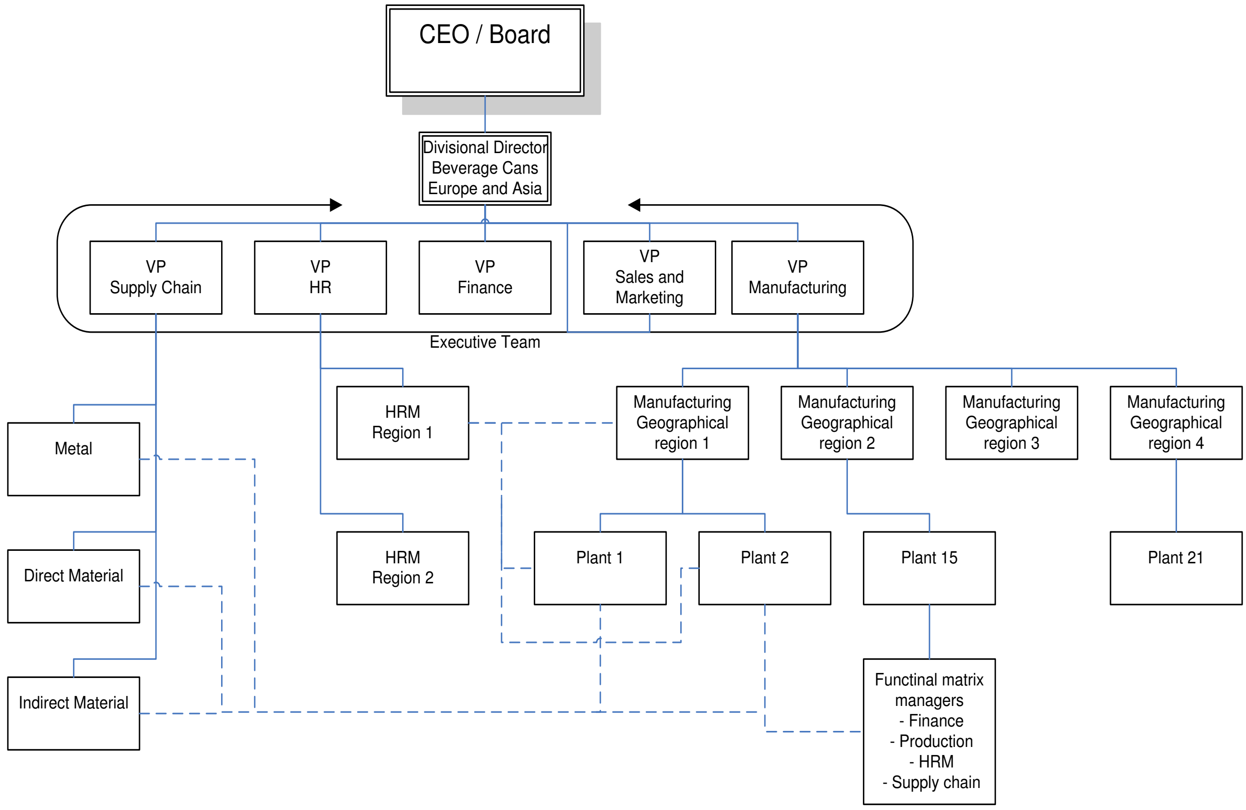


Fig 16.0 – Rexam Beverage can division Europe and Asia organogram

Crown Holdings Organisational Structure

Crown is regionally structured at corporate level (fig 17.0) and then has a mixed product structure within each geographic region. In Europe both beverage cans and metal food can divisions report to the President for Europe. There are 13 beverage can plants in the division including the Middle East. The Americas beverage can business is divided into the North and South with 9 and 4 plants in each division respectively. The Asia Pacific region has a mixed (function, product and regional) structure with 8 beverage can plants within the region.

Crown has ambitious plans to build new plants and production lines in the emerging markets after recently announcing the capital expenditure plans for 2011. Additional capacity will be introduced in Brazil, Eastern Europe, Turkey, Thailand, Vietnam and China (4 new plants). By the end of 2012 crown will have added 7 new plants with 14 production lines increasing their global capacity by 22% (11 billion cans).

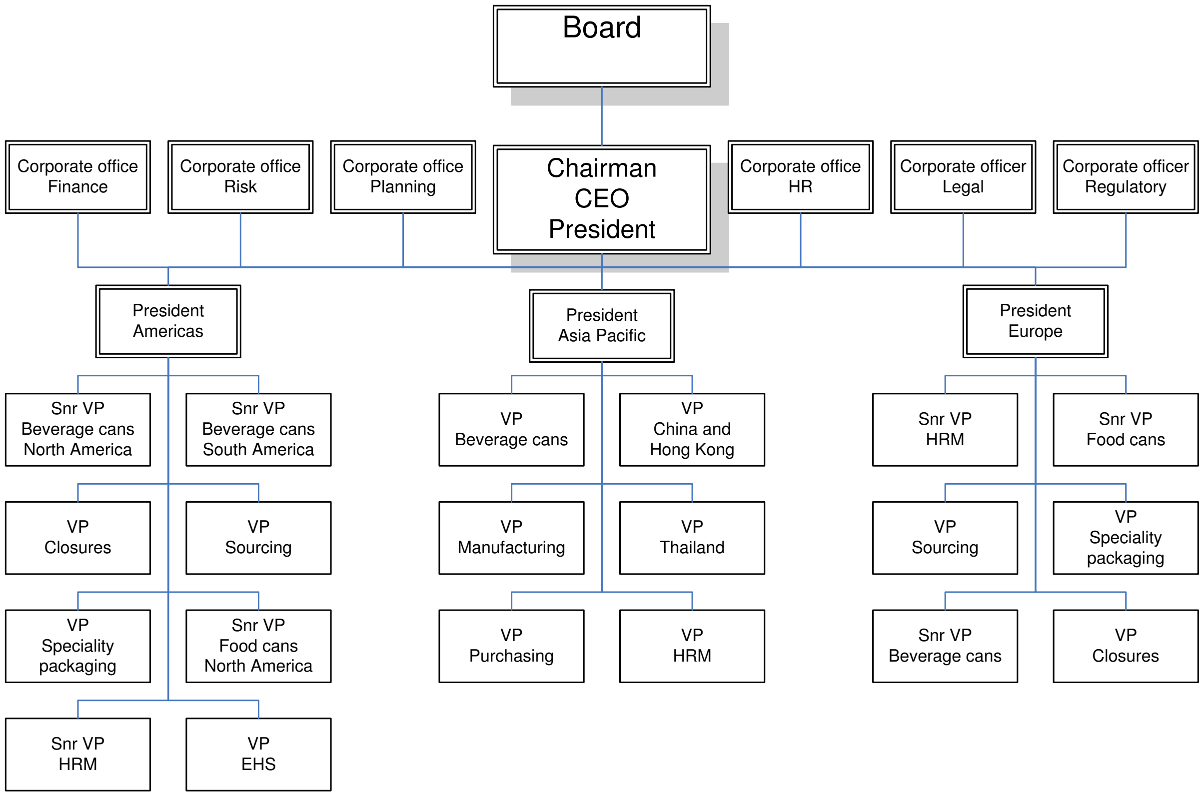


Fig 17.0 – Crown Holdings Organogram (Source – Crown.com, Crown financial statement 2011)

3. Chapter Summary

The strategy of expanding in the emerging markets appears to offer good business opportunities. With strong growth predictions and good historical performance (in Brazil) we can see how these markets appeal to Rexam, Crown and Ball. There are first mover advantages in India which still has the lowest packaged beverage consumption per capita in the world and there are potential opportunities in the ROW category where the ‘big three’ have the lowest presence.

Rexam is in a strong position with a majority market share in Russia and Brazil. It has however an insignificant presence in China where it would take a significant investment to become a major player before it could leverage any global scale synergies. Whilst investments could provide better returns in other markets in the short term, ignoring China for too long would make it even more difficult to penetrate into a market still growing at 3-4% p.a in the future. If the emerging markets are to be the next source of business growth then the design of the organisational structure that companies use to implement and support these growth strategies will be key to their success. As Crown expands its portfolio of beverage can plants in the emerging markets the workload appears to be split across each of the geographic regions. The Asia and Pacific region could be managing the four new plants in China, the European division the plants in Turkey and additional capacity in Eastern Europe and finally the Americas division could be managing the new plants and expansions in Brazil.

Crown has divisional offices in Singapore for Asia Pacific, Zug in Switzerland for Europe and Philadelphia for the Americas. Each of these offices has a sales and marketing department where in some cases the same person is responsible for more than one product. Crown states in its accounts (www.crown.com 2010) that sales and marketing staff within each operating segment support and negotiate with local customers. In some cases contracts are negotiated regionally or centrally. Crown also has two research, engineering support and development centres (one in Wantage in the UK and one in Illinois USA).

The divisional offices and engineering service centres give Crown a distinct advantage in the emerging markets. Crown appears to be close to the customer maintaining local relationships that allow them to understand in detail how the local market is developing. They can assure sufficient time is given to key projects without the hindrance of transcontinental travel being required to meet customers. As mentioned earlier synergies are being made in the sales and marketing departments in the divisional offices where in Asia the same person manages metal closures and aerosol packaging. Whilst we cannot assume that these synergies are obtained in other departments there should be no reason discount that the division can share resources for production and engineering, finance, HR and supply chain. Because of the similarities between beverage cans, food cans and aerosol cans the geographic divisional perspective of Crown appears to work well and fit the good design principles.

Rexam BCEA is headquartered in Luton in the UK. The location puts the division at a disadvantage when trying to penetrate the Middle East and Asian markets. The locations in India, China and Egypt have local sales managers reporting into the central H.O in Luton. This potentially reduces the parenting advantage due to geographic distance. All other functions are structured similarly with either a central dotted line reporting structure or in the case of operations and HR regional reporting lines which then report to Luton H.O.

Whilst we can not make assumptions about clear lines of authority that Crown may or may not have we can see that the Asia and Pacific division is structured differently to the other divisions. There is mix of functional, geographic and product reporting lines. VPs for Hong Kong and Thailand could be focused on the local sales and marketing requirements and supply chain could be managing the supply requirements for the whole division. Given that this is the smallest of Crown’s divisions (10% of sales) we could assume that cross functional management is being encouraged to keep the administration costs under control? By studying Crown’s organogram it offers some insight into how Rexam could create an effective organisational structure that can implement a strategy for growth. Rexam should review the design structure around the requirements (local relationships, cost effective supply chain management, well supported manufacturing and engineering functions) and not around the people available. The next chapter assess the effectiveness of the current Rexam organisational structure and identifies how it could be improved to support a strategy for expansion.

Chapter 4 – Assessing the Effectiveness of the Organisation

1. Rexam Research Outline and Methods

The key aim of this report is to identify an organisational structure that enables the deployment of a strategy for growth for Rexam Plc Beverage Can division Europe and Asia. I have presented in the previous chapters the key aspects of good organisational design and also presented tools that enable the design of an effective organisational structure. Employee involvement is one of the key aspects of good organisational design as suggested by the research from the Corporate Leadership Council (2010). Unilever spent months with senior leaders and managers discussing the organisational structure before designing the operational framework for maximum effectiveness. Petco has a business improvement process that involves employees mapping out the activities and tasks of people within the organisation to review the effectiveness, duplication, communication issues and working environment. Before concluding this report with a recommended structure to enable growth I will review the effectiveness of the existing organisational structure at Rexam for consideration during the design process.

Research Outline

The research was broken down into two distinct areas to ascertain views from the corporate leaders of Rexam and the managers operating within the organisational structure.

1) Corporate interviews – with leaders at Rexam. These interviews were based on a question set derived from Goold and Campbell's (2002) nine tests of good organisational design and research from the history of early organisational structures. The questions were designed to determine the drivers for the current organisation, business priorities, management philosophies and to seek opinions for how the company should be structured for a growth strategy in the future.

2) Online surveys – with managers operating within the current Beverage Can Europe and Asia division. The online survey was designed to review the effectiveness of Rexam's current structure and identify the issues faced by employees operating within the matrix organisation. The question set was developed to assess the informal networks, motivation, accountability and the perceived value of the current organisational structure.

Method

The corporate interviews were conducted at Plc headquarters on a one to one basis using the question set as a prompt and allowing each of the members of the corporate leadership team some latitude to express their views and opinions. The results are presented later in this chapter.

The online surveys were developed using the internet based software www.surveymonkey.com. Participants were surveyed for their views on how to improve the structural effectiveness and how flexible the current organisational structure is to enable and support a strategy of growth. By surveying managers (prime users within the organisational structure) the survey aimed to assess the advantages and disadvantages of Rexam's current structure and the issues faced within the matrix organisation.

The online survey was split into three distinct groups – 1) managers within the central functions, 2) managers in the different geographical locations and 3) managers from regional roles. The survey compared the responses from these three groups as each of them may have perceived the organisational effectiveness differently. Ten participants from each group were selected (thirty in total). Participants were also selected from a number of different job functions within each grouping. Managers from central functions comprised sales, finance, engineering, planning, supply chain and HR job holders. Regional managers comprised IT, Customer services, Operations, Sales and HR. The geographic group comprised predominantly Plant Managers and Finance Managers as they are the most senior pivotal contacts between the central and regional functions to the geographic locations. In conjunction with the online questionnaire 50% of the participants were asked to complete a business links questionnaire (fig 17.0).

	Percentage of time spent	No of	Comments	Instructions - only fill in green boxes
Line manager	5	1		The objective is to understand how much time and
Direct reports	60	5		how many contacts there are for various funtions
Outside contacts	1	1	Customers / Suppliers	Complete the time spent with you direct line
Matrix managers	34	32		manager and your own direct reports (may be zero)
Position	Plant Manager			Only complete the matrix data for contacts that are
Function	Manufacturing		Manufacturing / Sales / Engineering / Supply Chain / Finance / HRM	NOT your direct reports.
Totals	100	39	Percentage should total 100	Please over type this plant manager example

Supply Chain Matrix Managers	Percentage of time spent	No of contacts	Location	Comments
Total	**7**	**8**		
ODM	1	3	H.O	
Metal	3	3	H.O	
Capital and spare parts	1	1	H.O	
Production supplies	2	1	H.O	
Mater data	0		H.O	
Other ?			H.O	

Engineering Matrix Managers	Percentage of time spent	No of contacts	Location	Comments
Total	**8**	**7**		
Lean	2	2	Tong	
Process / Support	1	0	Tong	
Major Projects	0	0	Tong	
Quality	1	1	Tong	
CTS	3	2	Tong / Regional	
Metal / Tooling	1	2	Tong	
Other ?				

Operations Matrix Managers	Percentage of time spent	No of contacts	Location	Comments
Total	**4**	**10**		
Planning	2	2	H.O	
Logistics	1	2	H.O	
Packaging	0	1	H.O	
Production	1	5	Regional	Other Plant Managers
Other ?				

Other Matrix Managers	Percentage of time spent	No of contacts	Location	Comments
Total	**15**	**7**		
Finance	4	0	H.O	
Sales	3	2	H.O	
IM	5	1	H.O	
Manufacturing	3	1	Regional	Other Plant Managers
Customer services				
HRM		3		Regional
Other ?				

Fig 17.0 – Rexam matrix links questionnaire template

This business links questionnaire highlights the contact points for various managers charting the number of dotted line (informal) reporting / communication links and the percentage of time spent managing within the Rexam network. This template shown in figure 17.0 is an example for a Plant Manager which simplifies the alternative of drawing the dotted lines as an organogram. The summary shows this person has 32 business links which account for 34% of the manager's available time.

The Online Survey Overview

An overview (appendix 1.0) was given to each of the participants to enable them to gain an insight into the objective of the report and help them think about the organisation as a whole and not the personalities within it. The overview explains the difference between regional, functional and geographic managers and also gives an example organogram highlighting informal links and dotted line reporting.

2. Rexam Research Results

2.1 The Corporate Interviews

The responses from the interviewees have been consolidated for each question to assist in the discussion and draw conclusions at the end of the section. The list of Corporate Executives interviewed was as follows –

- Graham Chipchase (GC) – Company CEO and Executive Board member
- Jon Atchue (JA) – Corporate HR director and member of the Executive team
- Michael Cramb (MC) – Company Business Development Director
- Nikki Rolfe (NR) – VP Human Resources (BCE&A)

Responses

Section 1 – Structure and fit

a) It appears that Rexam has a product organisational perspective organised into two global businesses – plastics and beverage cans. What are the main drivers for this perspective rather than a regional / geographical split?

GC – Initially history, as two businesses with decentralised structures were merged and centralised by Rexam to improve the management *'line of sight' and control.* The beverage can perspective is regional in line with the customer base and plastics have a global perspective with products being produced in one country being sold in another.

JA – Legacy, history, and personality of previous CEOs. The acquisitions were made making good synergies with operating structures that are clearly visible.

MC – *We differ to our competitors in perspective as we don't have the same technology* synergies. Crown has good synergies with food cans and beverage cans.

NR – Expertise, technology and history.

b) Strategic fit – How does Rexam assess the alignment of resources within the organisational structure to ensure enough management time is allocated to the business sectors (current and emerging markets)

MC – Resources will increase as the strategy is deployed to increase presence in the emerging markets

JA – At the moment the judgement is very subjective and more reactive than proactive. Rexam aims to focus on this aspect for the new growth projects.

NR – At the moment it appears informal and driven from the bottom up (resources are requested). The business however needs a top down strategic approach where we plan (maybe ten years?) ahead and set targets.

c) Parenting advantage – What advantages does the parent organisation provide to the divisions and business units i.e. (global aluminium supply). Where is the organisation weak for the current strategies (innovation?)

GC – Most of the parenting advantages are regional rather than supported from the corporate H.O. There could be further benefits by dealing globally with suppliers but they are resistant to negotiate globally, as we are with our customers in order to maintain pricing strategies.

MC – The plastics business has a more entrepreneurial culture than the beverage can business due to the complexity and number of small business units within the sector. Therefore parenting advantages occur when the business functions can be actively managed by a corporate department that can effectively handle the dynamics involved.

NR – *Where we have expertise which doesn't need to be available in all sectors (pensions, tax,* treasury, corporate development etc).

d) Difficult links test – How does Rexam assess the potential conflicts in personal objectives? For example loss in sales volume replaced with increased margin vs. operational efficiencies?

GC – Executive incentives aligned to a common strategy, factory profit centres and visibility of the sales / volume / margin ratios that result from the decisions and actions of our employees.

JA – We are becoming more proactive in this aspect by reviewing the structure and how we are set up.

NR – Common objectives and collaborative management approaches. Cross sector could be improved.

Section 2 –Managing the organisation

a) How does Rexam manage the global-local dilemma? Does the SCMC concept create communications and or accountability issues?

GC – The SCMC takes away the profit centre analysis but focuses the Plant Managers attention on the KPIs they can affect. The local global dilemma depends on the business functions. Sales should be local and interface with the right levels of authority providing a simple process. As discussed with parenting advantages we make customers feel local and avoid global structures.

JA – Global functions that can take advantage from synergies and parenting are HR administration, global supply chain, IT and shared services.

MC – Stay close to the customer locally as they see the consumer trends and develop the marketing strategy that affects our own business.

b) Portfolio optimisation is a strategic option. Will the focus on high profit products / customers lead to changes in organisational structure?

MC – Complexity should not be avoided if it creates value and good returns. We should ensure we are structured to manage the complexity.

c) What do you perceive as the key issues with the current organisational structure at corporate level, regional (sector level) and locally (plant level)?

MC – At corporate the issue is understanding the parenting advantage, regionally it is the extra layers of management that cause some complexity issues, but in the beverage cans sector the *'one size fits all' structure seem*s to work.

JA – At corporate level optimisation of the supply chain could be improved.

NR – We need to construct structures that offer progression. The regional structures could be better aligned and we could improve the process of organisational design. There is sometimes a central office to subsidiary tension caused by the direct approaches.

Section 3 – Organisation structural evolution

a) During growth when would Rexam consider a new region (sector)? When does a region become too large or complex to manage?

GC – Specifically for BCEA a new region would be considered during an emerging strategy, when relationships and commitments have been made with customers or when support from Luton was not effective. A new regional structure would evolve with the strategy.

MC – Would consider a new region when Rexam was in a competitive advantage. Beverage cans should wait longer until the strategy emerges but plastics could change due to the diverse nature of the multiple businesses.

NR – Complexity, new markets and when the management of the businesses requires more *attention than is available. There are no indicators, just a 'gut feel'.*

b) Does strategy shape structure or visa versa? When reviewing new opportunities or new markets does Rexam attempt to service these from the existing structure or develop new structures specifically for new regions?

JA – Yes strategy first then structure followed by people and processes.

MC – Yes strategy shapes structure (experience from a number of other firms also supported this statement). The view on BCEA is to maintain the structure until further strategic acquisitions or investments are made.

NR – Strategy then structure.

c) Financial and strategic triggers – does Rexam use triggers to initiate organisational design reviews such as market share or ROS by sector, market or product against predefined targets?

MC – A reactive approach reviewing divisional quarterly results and some separate business units.

JA – From a human capital aspect development and growth that enables a flexible management approach needs to be seen as an investment.

Discussion

Generally all participants agree that the organisational perspective was influenced by technology, expertise and history; however there are good reasons for the current structures. The business is different to our competitors and therefore the regional and product perspectives work. Rexam does not have the same synergies as our competitors with food and beverage cans and the nature of the plastics business requires some level of entrepreneurial flare. The diverse range of the plastics sectors products does not align it with a centralised, functional management structure. The spans of control would be too large for a centralised structure. This first observation describes the structure Rexam has today as evolutionary and following strategy. It has been recognised that this aspect of strategic planning may need to be addressed in the future with a more proactive approach.

Parenting advantage appears to be a result of the structure rather than a strategic decision. If corporate functions can manage to control some aspects of the business then it has the potential to leverage further synergies to Rexam's advantage. Complexity is not avoided in Rexam, but the management of it creates some challenges. There is a view that complexity brings with it an additional layer of management which in turn adds cost and decreases corporate visibility of the business units.

All participants are clear that structure follows strategy but there appears to be an absence of an organisational design process. This can lead to the structures being designed to meet a certain demand at a point in time (driven bottom up). The reactive process could be misleading Rexam to create structures that do not address root cause problems or support the strategy adequately with the right skill sets in the right quantities and the right places. During reorganisations we should use lean methods and ask the '5 whys' seeking alternatives before potentially expanding departments.

2.2 Matrix Links

From the principles of good organisational design and the congruence models discussions it was determined that informal networks have an influence on the effectiveness of the organisation. The question sets for both the executives and online survey participants contained questions regarding the complexity and numbers of links managers have within the current organisational structure. Therefore before we can propose a new organisational structure we need to quantify these links and assess how they effect the organisation's effectiveness. Below is a selection of the results obtained from the managers who were also asked to complete the online questionnaire.

1	Percentage of time spent	No of
Line manager	5	1
Direct reports	35	2
Outside contacts	5	8
Matrix managers	55	49
Position	Finance Director	
Function	Finance	
Totals	100	60

2	Percentage of time spent	No of
Line manager	5	1
Direct reports	25	4
Outside contacts	50	30
Matrix managers	20	39
Position	Purchasing director	
Function	Supply Chain	
Totals	100	74

3	Percentage of time spent	No of
Line manager	5	1
Direct reports	18	3
Outside contacts	8	9
Matrix managers	69	79
Position	Manager	
Function	Lean Six Sigma	
Totals	100	92

4	Percentage of time spent	No of
Line manager	7	1
Direct reports	15	3
Outside contacts	20	40
Matrix managers	58	58
Position	Regional Sales Director	
Function	Sales	
Totals	100	102

5	Percentage of time spent	No of
Line manager	5	1
Direct reports	54	7
Outside contacts	6	23
Matrix managers	35	36
Position	Plant Manager	
Function	Manufacturing	
Totals	100	67

6	Percentage of time spent	No of
Line manager	5	1
Direct reports	65	11
Outside contacts	10	6
Matrix managers	20	30
Position	Plant Manager	
Function	Manufacturing	
Totals	100	48

Discussion

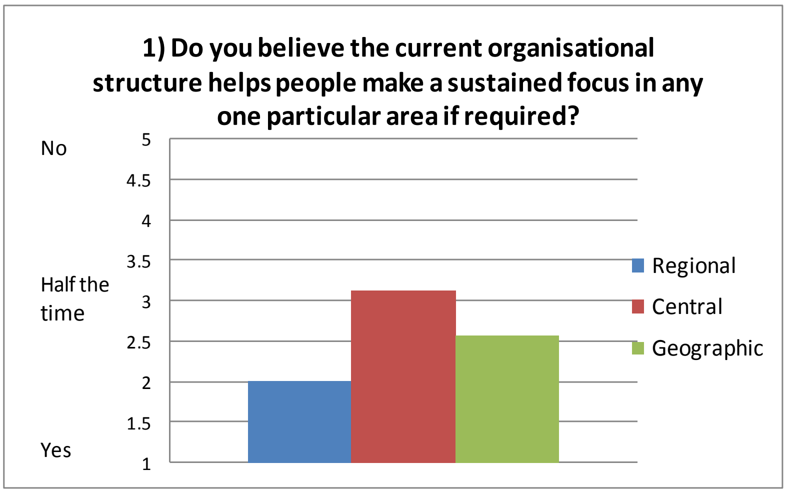
When questioned about the number of links in the matrix organisation most respondents were surprised how many they actually had to enable them to effectively manage their roles. The time spent with direct line managers varied from four to seven percent across all functions which could bring into question the amount of parenting advantage anyone could actually receive. The functional managers (finance and supply chain) have more links within the same functions. Central finance for example is linked to all geographic (plant) finance managers across the sector and central finance functions at corporate and sector level.

The central lean manager and regional sales director have the widest scope of links at 92 and 100 respectively. The number of links and outside contacts could result in the low percentage of time spent with their own direct reports at 18% and 15% percent respectively. Interestingly the amount of time spent per direct report is approximately 5% for most respondents (with the exception of the finance manager), which is approximately the same as the amount of time spent with line managers. One plant manager spends 65% of his time with 11 direct reports and the sales director spends 15% of this time with 3 direct reports. The following online survey results question whether the amount of links people have and the complexity of reporting / communication are perceived as an issue that affects operational efficiency.

2.3 The Online Survey Results

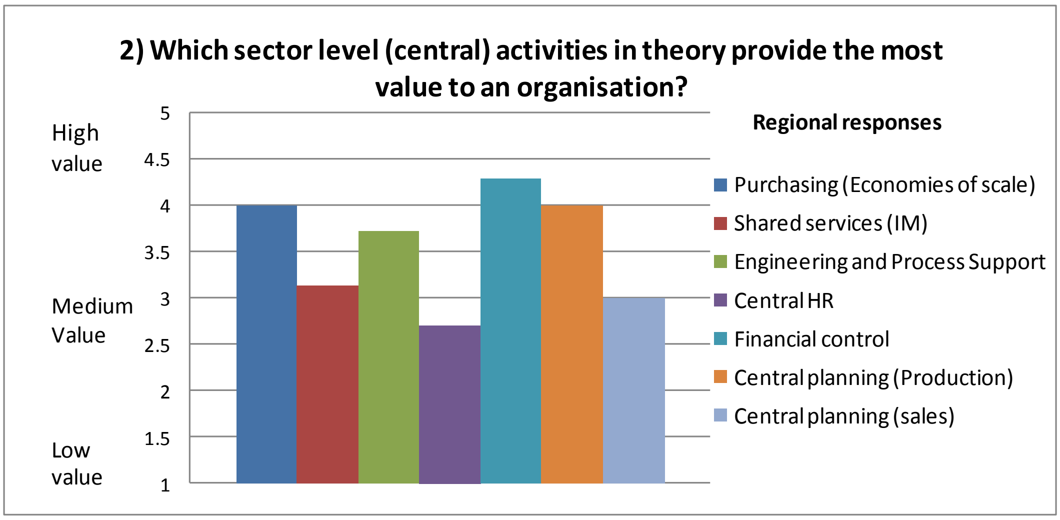
The online survey had a good response rate of 77% spread evenly across the three groups. Whilst the sample size is not statistically large enough to use hypothesis testing and statistical analysis, it does give a good indication of the current development opportunities within the Rexam organisational structure. The results below show the average response rate for each question from each grouping of participants (regional, central and geographic).

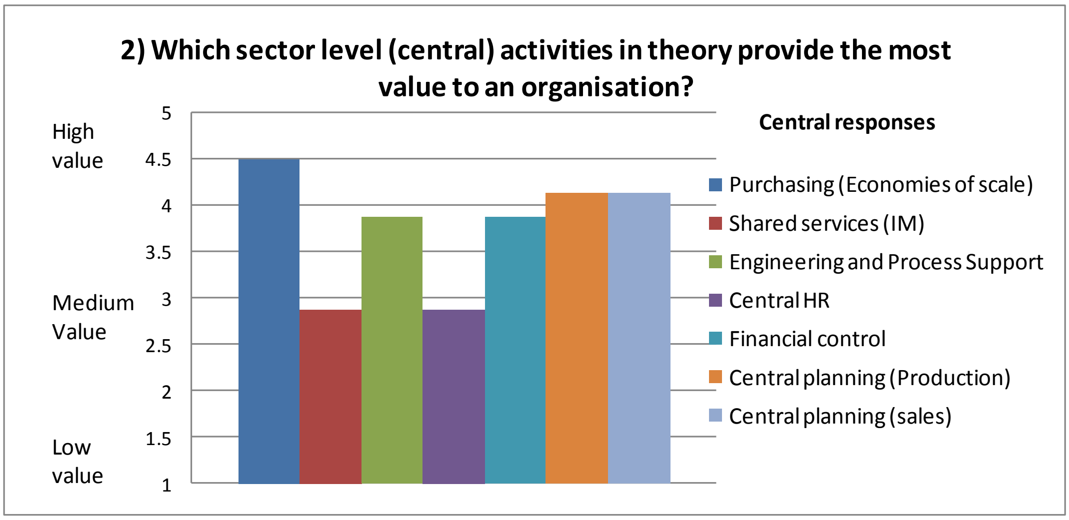
The first question asks managers if they have enough time allocated to concentrate on strategic objectives if required. In terms of strategic fit we can see that centralised managers appear to have less time to focus if required. This could be explained by the nature of the matrix and the fact that centralised functional managers are informally connected to all the geographical managers. Concentrating on one aspect only for a period of time would probably result in central tasks not being completed effectively.

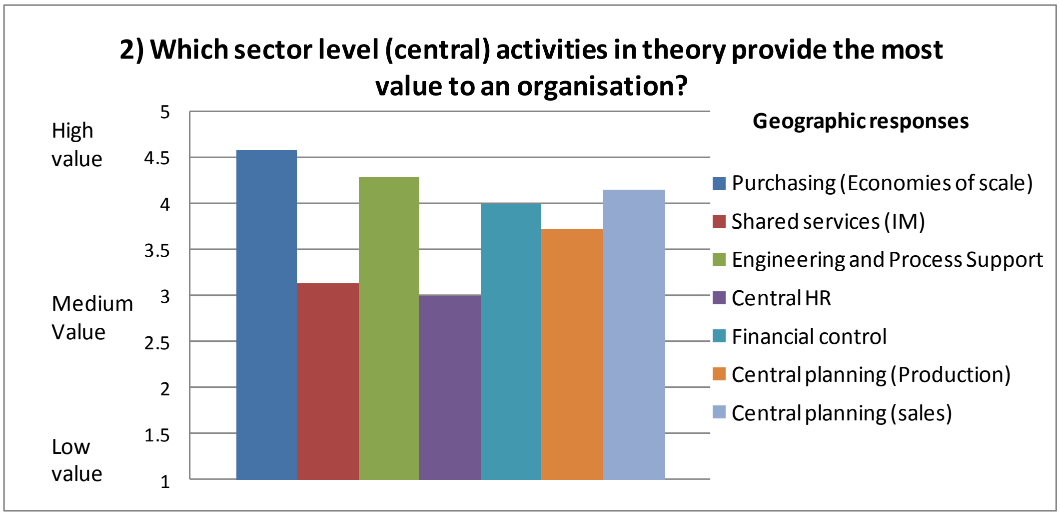


The next set of questions asks each group (regional, central or geographic) which of the central functions they perceive adds the most value to the organisation. All groups perceive purchasing and scale of economies as high value adding activities whereas HR and shared services are consistently ranked the lowest across all groups.

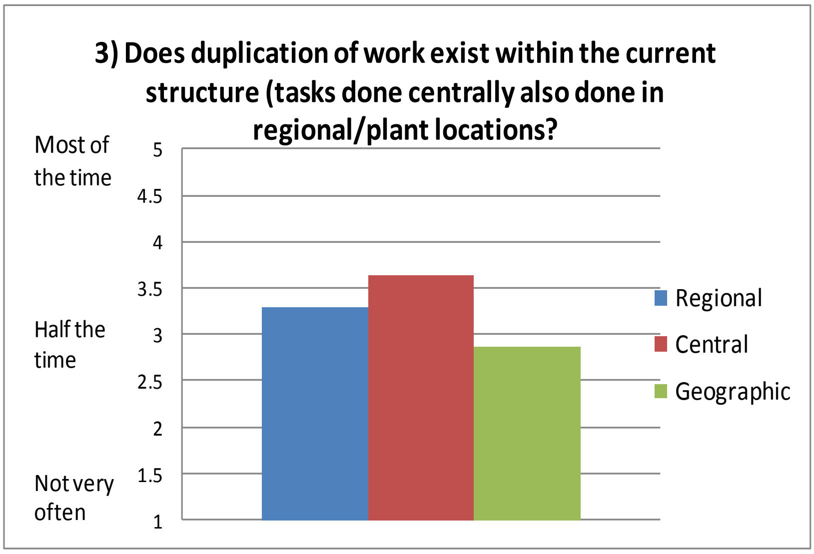
Interestingly the executive interviews ranked shared services and HR as functions that should be centralised due to potential synergies for administrative tasks. Because managers generally have less exposure with the centralised HR and shared services functions than the executives they may not acknowledge the benefits. For example a common platform for HR management will have more benefit for executives with global responsibilities for remuneration policies, resource pooling and employee development programs than an individual manager operating within the European beverage can sector matrix.



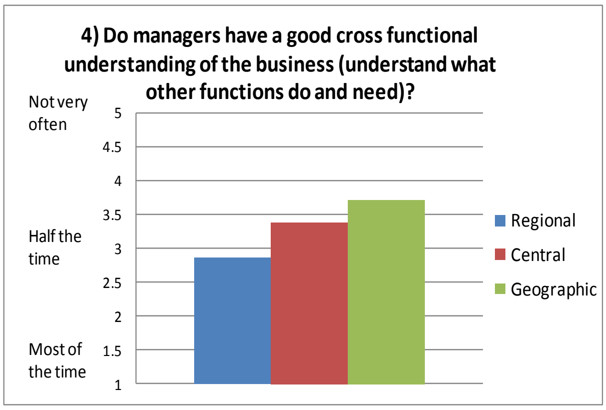


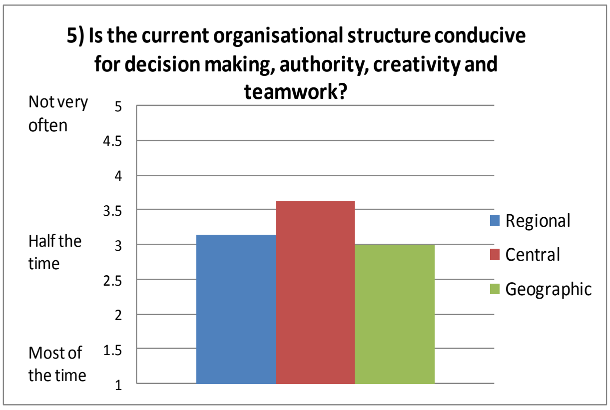


Question three is concerned with the duplication of work that potentially exists within matrix organisations, which is often cited as an issue in the literature researched due to overlapping responsibilities. The interesting point is the central functions claim the highest levels of task duplication. This could be because they see the geographical managers consolidating functional information into many other forms of communication. All groups claim duplication is occurring half of the time which should be addressed in the structure redesign.



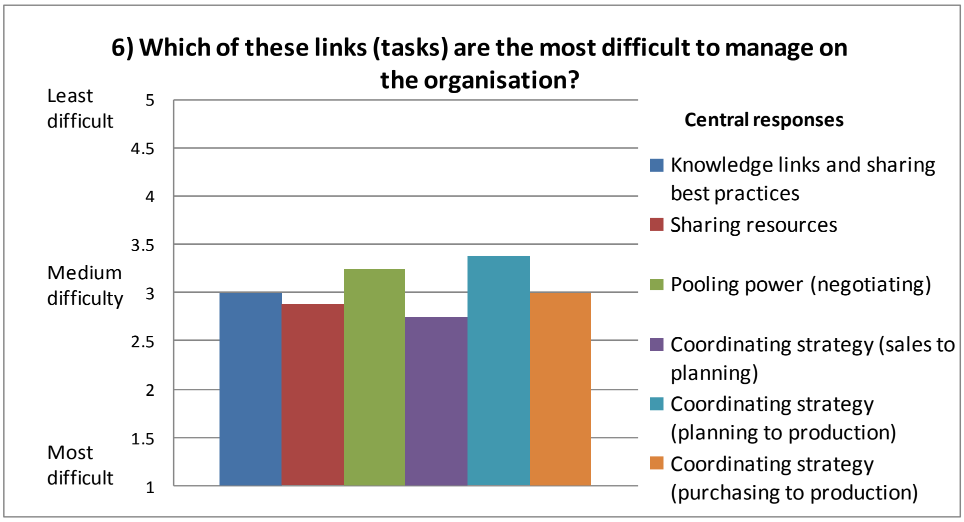
There appears to be a perception from the responses of question four that other managers within the organisation do not have a good cross function understanding. Regional managers who have responsibility across functions and different geographies see this as less of a concern. Generally they spend more time dealing with matrix managers than the geographic based managers who could perceive the functional managers as being specialised and not aligned to the other functional managers in the central positions.

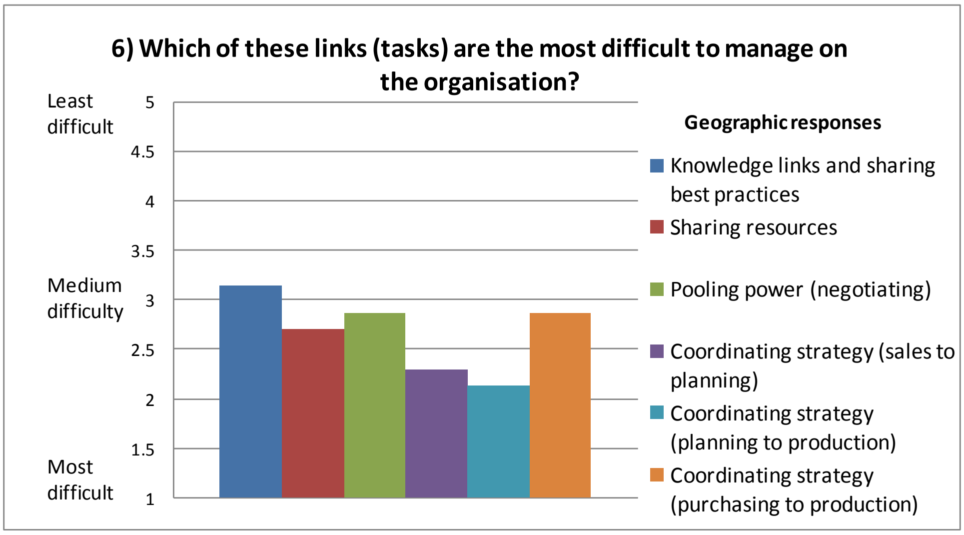


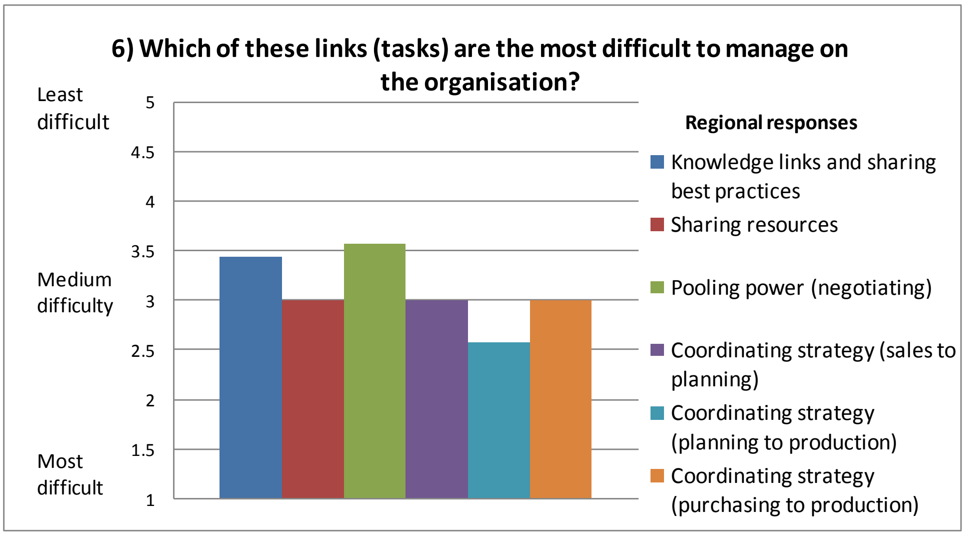


Question five is neutral about the organisational environment. Central managers generally score lower and possibly as a result of the narrower scope of matrix contacts. More than 50% of the finance managers links are to other finance managers which should help create an autonomous team working environment with less potential reasons for conflict.

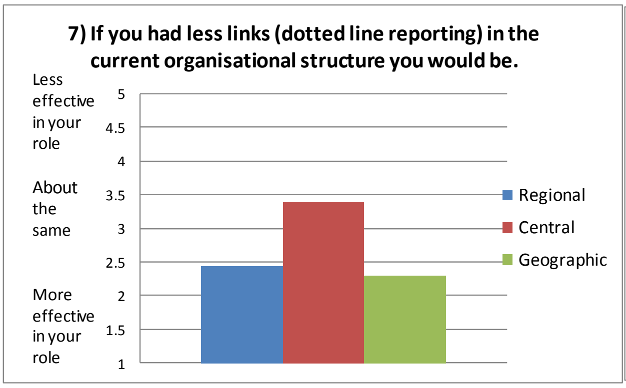
The next set of responses in question six measure the difficult links in the organisation with a series of questions presented to each of the groups. The main difference in the results is coordinating strategy (planning - production) where the central functions see this as the least difficult link to manage. The geographical and the regional managers perceive this link as the most difficult to manage. The root cause could be the fact that central functions see the broader picture across the sector when formulating their plans and actions. The geographical managers will only see one small detail (their own plant production plans). As this aspect (planning) has more influence on the plant performance than any other function we can see why geographical managers (plant managers) find this link difficult. Potentially 26 plant managers all have links to the one centralised function all needing a clear rationale and communication for their own plants production planning.

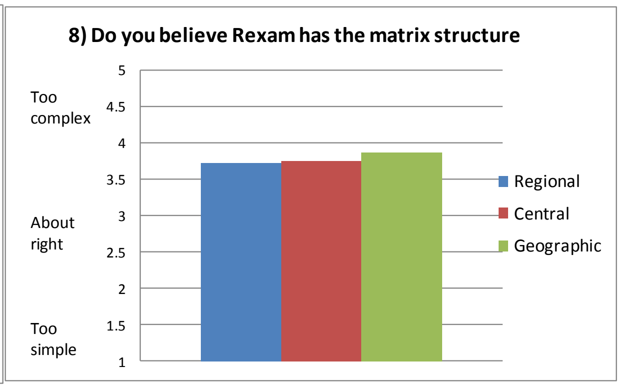




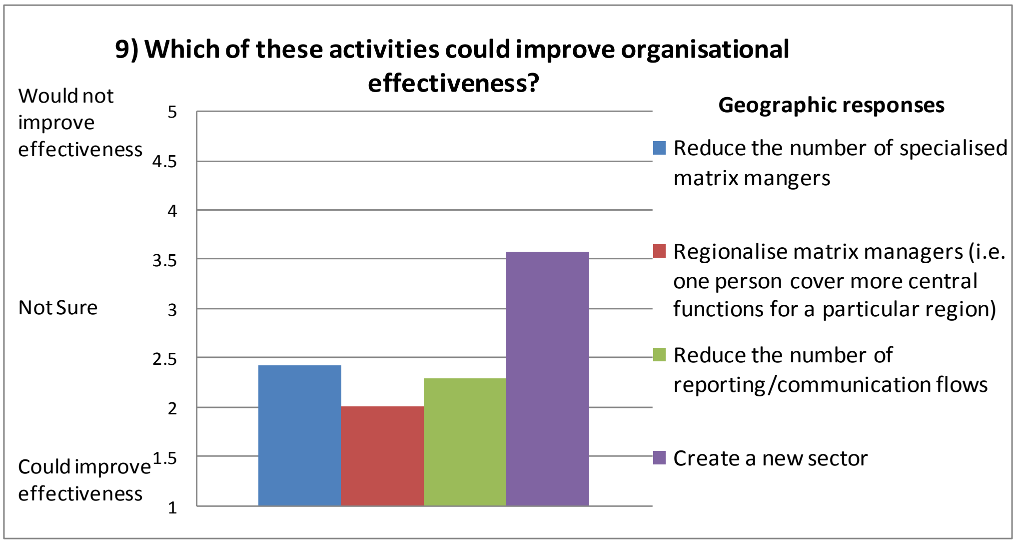


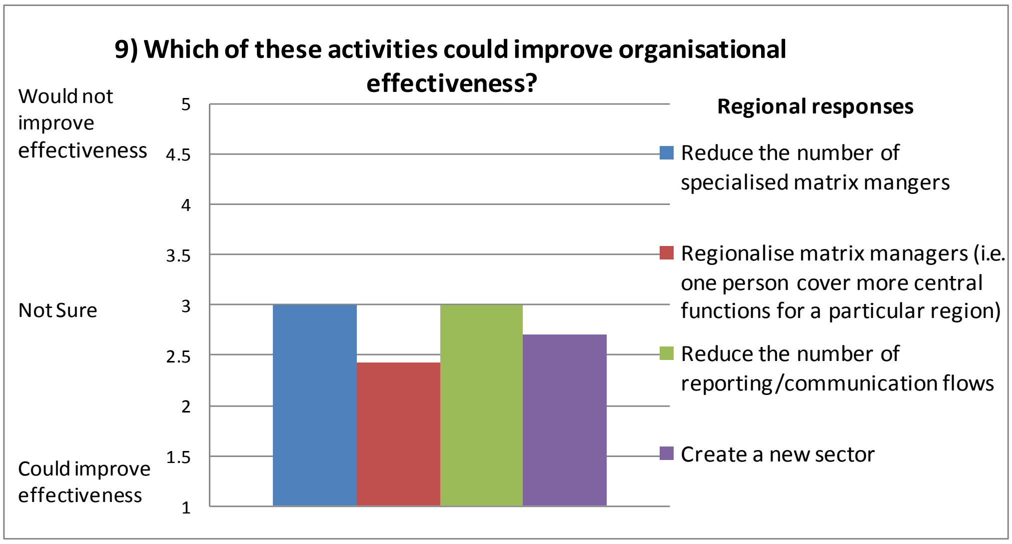
The matrix complexity and links (dotted lines) are explored in the next two questions (7&8). The geographic and regional managers perceived they would be more effective with less links. The central functions feel they would be about the same. The central functions tend to be specialist and without the current links within the same function (sales, supply chain. finance etc) they would not be effective in their role. The regional and geographic managers have links to many different functions and can possibly see that managing with multi functional managers (regional managers) would reduce the number of links.

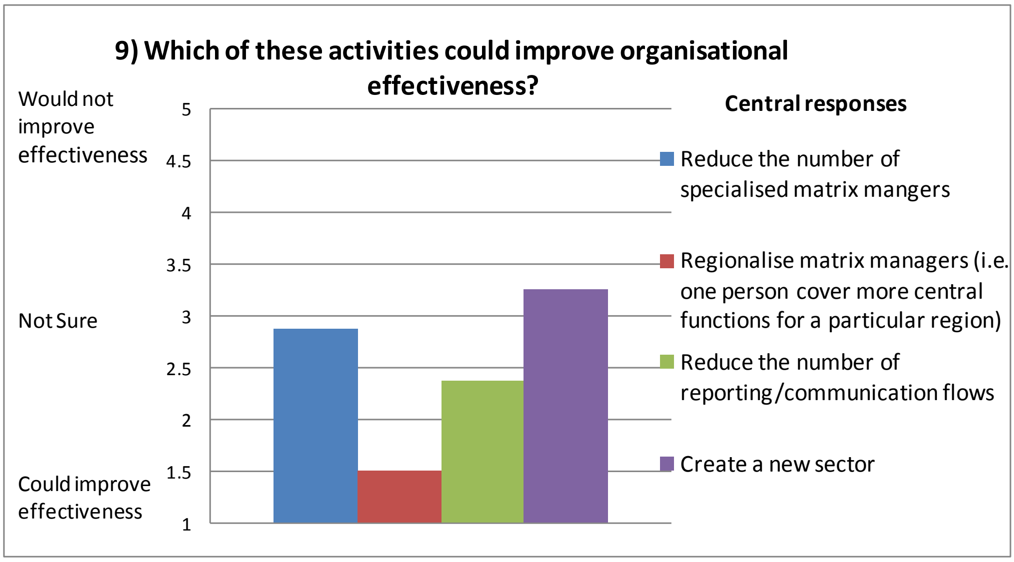




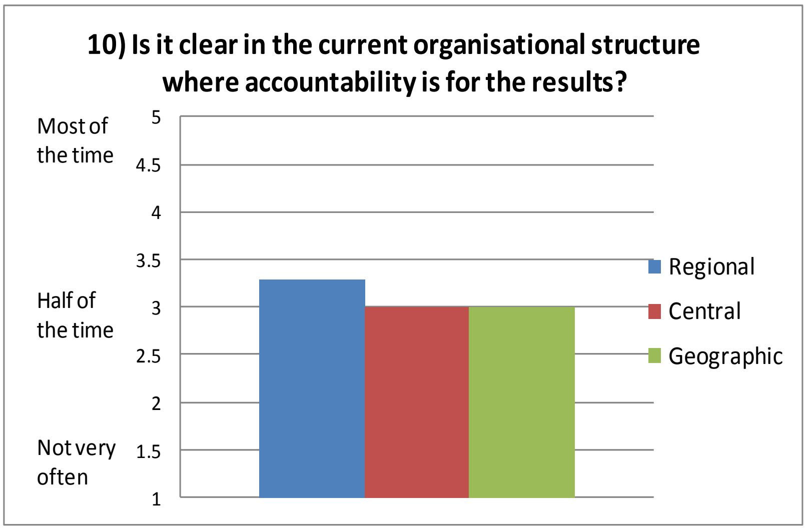
We can see with the previous responses that there is scope for improving effectiveness but the responses from question eight would indicate the matrix is not overly complex. Question nine clearly shows from the three groups that creating more regional managers would improve the organisational effectiveness. Whilst retaining the same number of matrix managers, reorganising the structure to create some regional roles with a broader scope could improve the effectiveness. The regional responses are neutral compared to the geographic and central responses with most of the responses being 'not sure' or could make a slight improvement. These responses are as expected as regional managers already have less complexity and less links which also explains why in question four the regional managers perceived matrix managers to have a good cross functional understanding of the business





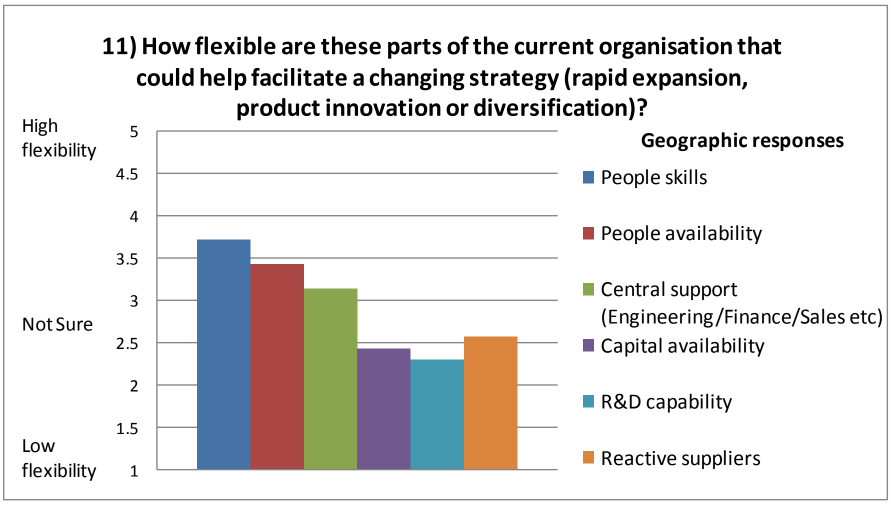


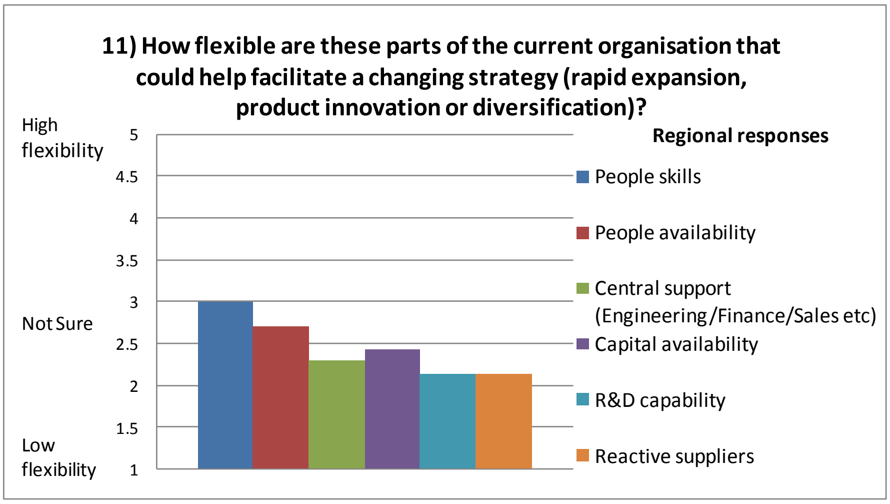
Effective matrix structures need clear lines of accountability (Smith 2009) to limit the duplication of work, which in itself can lead to miscommunication issues. The result of question 10 in itself is neutral but even if accountability is not clear half of the time Rexam would consider this far too much. Rexam should be aiming for the majority of responses to be 'most of the time' in question ten.

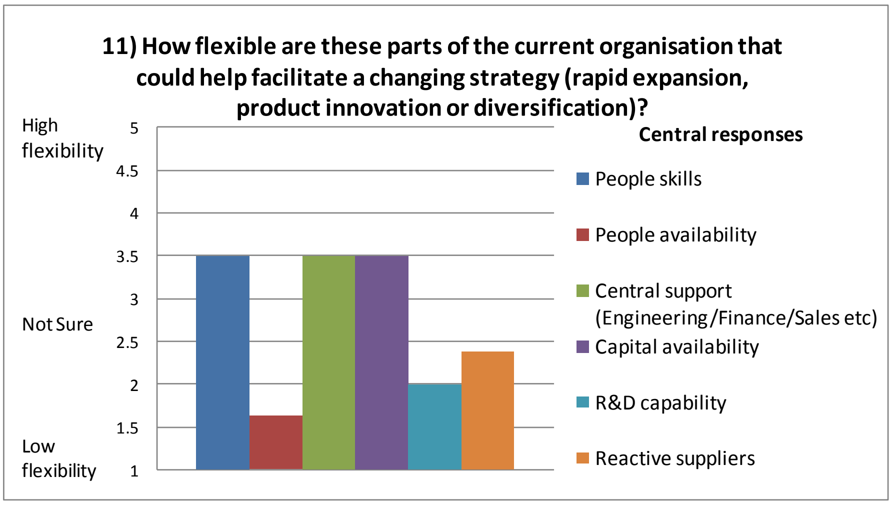


The final question (eleven) is assessing the perceived flexibility of the current matrix structure by the matrix managers (who are in a good position to do this as they understand the issues and requirements for supporting emerging / changing strategies). The responses from the geographic and regional managers are very similar ranking people skills and availability as the most flexible and R&D and reactive suppliers as the least flexible. None of the responses for any category are ranked as highly flexible. The surprising response is from the central managers who rank people availability as very low.

As functional managers are based centrally they may not see the broader picture of people resource availability within the organisation. They may perceive there are not enough people within their own department (finance, supply chain, HR, etc) that could cope with a strategy for expansion. The fact is there are 5000 people in Rexam Europe and Asia. They just need to be flexible in skills and transferable between regions.







Discussion

On average respondents believe that the organisational effectiveness of Rexam can be improved by simplifying the structure and reducing the number of linkages. This is consistent to the approach taken by Unilever and from the findings of Goold and Campbell (2002). The effective division of labour and resources is one of the key principles of good organisational design and at Rexam respondents suggest that regional roles could simplify the management of tasks and reduce duplication by reducing the number of business links and hence complexity.

The works of Fayol (1949), Mayo (1933) discussed the human aspects of work and the effect that structure has on productivity. Structures that create levels of autonomy and responsibility are motivational and more effective than the mechanistic structures seen with functional specialist's roles. Geographic respondents perceive that Rexam managers do not have a good cross functional understanding of the business which could be consistent with Mayo's observations that the mechanistic structure does not promote cross functional teamwork. The next chapter presents an alternative structure for Rexam and concludes how many of these opportunities raised throughout the report can be realised by creating a business process for organisational assessment and design.

Chapter 5 – Conclusions and Recommendations

1. Structural Observations

Research by the CLC (2002) suggested that reorganisation for entering an emerging market is not a key driver for the majority of companies. Only 13% of respondents considered a new structure for emerging markets compared to 72% that restructured to save costs. Rexam is being proactive by considering a reorganisation to facilitate a strategy for growth in the emerging markets which Rexam also differs from Chandlers (1962) findings that restructuring followed a crisis. Further research would be necessary to assess if a proactive approach is being considered by companies for the future. Unilever proactively used restructuring to drive the company strategy which was not being deployed efficiently or fast enough. The general pace of international business is much faster than in the past as consumers require product faster and time to market for new products is constantly being challenged. Therefore waiting to see how a strategy develops before addressing the structure may be too late.

Rexam does not appear to design the organisational structure with any preference for functional mechanistic or a decentralised organic structure. Like many other companies the structure has strong links to history and past experiences. The need for scale of efficiency determines the functional aspects of the structure for Rexam even if it does not necessarily address emotional aspects of the employees that an organic structure would give. Therefore we see the priority as structure first before people. Interesting points are raised when we compare the responses from the three types of manager within the organisation (regional, geographic and functional). The responses for some of the theoretical questions, asking which are the most value adding attributes of the matrix are remarkably similar. The individual questions asking about people flexibility and time available to complete tasks differ by management group. This creates a different positioning for each of the sub groups against the ‘fit’ tests.

2. Report Conclusions

In the previous four chapters I have discussed the principles of good organisational design from the learning’s of other companies and researchers. I have also discussed and presented some tools that can help design an effective organisation. In this chapter I will present an alternative organisational structure for Rexam BCE&A that can facilitate in the effective deployment of a growth strategy in the emerging markets of India, the Middle East and Asia. The aim of the conclusion is to incorporate the best practices of organisational design whilst creating a structure that meets the needs and improves the effectiveness of the mangers that operate within it.

Organisational Design Objectives

In designing an organisational structure we need to determine what the structure needs to deliver. The effectiveness of the organisation will depend on a number of criteria being met that satisfies the key internal and external stakeholders of the organisation. This report has identified that structure follows strategy and Rexam's structure can be described as 'emergent'. In the following structural recommendations I have determined that the organisational design should be flexible and expandable rather than a simple copy of the existing BCE&A structure. I will justify this proposition as I present the details of the structure later in this chapter.

External Stakeholders

Customers – Require the local feel from Rexam. The research suggests that the organisational structure should accommodate the customer locally with the right levels of authority providing a simple process whilst the contract decisions should be made centrally. Unilever, Coca-Cola and Crown also state that the global – local dilemma is best served with a local representation. Customers (who ultimately set the market price depending upon the local competition) will require a competitive offering with good service levels and flexibility. Therefore cost structure for Rexam will be an important aspect of the organisational design.

Shareholders and Investors – Require Rexam to have a strategy for growth to improve returns and dividends. As discussed in the introduction investors need clarity and will seek validity of the company's strategic plans and announcements. Recent articles on FT.com (Gray 2011) suggested that Rexam's 2010 results were not received in the market as positively as expected due to the lack of clarity regarding the divestment of the closures business (£150m) and the future acquisitions. Credit Suisse (Reuters 2011-02-25) believed the market was underestimating Rexam's results due to 'unclear communication' from the company. Therefore an announcement of a new structure to execute the strategy into the emerging and growth markets would be seen as a positive step by the investors. This would also send a clear message to the competition regarding Rexam's commitment to certain regions.

Internal Stakeholders

Corporate – Leadership require good visibility of the market. Because the emerging markets and growth regions are integrated into a larger division of the organisation, true operating costs and hence returns are not always clearly visible. Financial indicators need to be clearly identifiable at corporate level if significant investment is being put into the new markets and regions.

From the corporate interviews it was noted that a proactive approach would be desirable vs. the reactive bottom up approach to organisational design. A new structure should be considered if the company felt that the current structure could not effectively support the strategy. The corporate leadership team will also want to ensure any parenting advantages are included in the structure and as discussed in the research these would likely be the functions of global supply chain, HR and IT shared services.

BCE&A Sector Executive team – Require a cost effective solution to managing the strategy. We can see that the people within the organisation rated purchasing power, financial control and central planning as the highest value functions within the sector. Therefore these links (or dotted lines) should be incorporated into the design to extract maximum benefit. As the sector currently manages the emerging markets within the region there will be inevitable disruption to the current organisational structure. If presented well the proposition should create opportunities for development and help address some of the issues raised in the online surveys. The requirement therefore will be to maintain a control of the business critical decisions and distance the sector from the details of the new structure that cause complexity and lack of congruence.

Sector Management – From the research and online surveys we can assess the needs and preferences of the managers that will operate within the structure which we can build into the design. Some of the key elements that can achieve this are –

- Creating the time available to work on strategic projects
- Limiting the duplication of work and reducing the complexity and hence business links
- Improving the difficult links and employees understanding of the other business functions
- Improving the accountability and creating autonomy in the less critical business decisions

When considering a new structure the responses from the survey suggested that improvement to organisational effectiveness could be achieved by –

- Regionalising matrix managers and reducing the number of specialised managers to enable employees to cover more central functions
- Making a reduction in the number of reporting lines / communications (which would be achieved from the above proposal)
- Increasing the flexibility of employees within the organisation and preparing available people to support the structure

3. Report Recommendations

Organisational Structure

The organogram shown below (fig 18.0) is a proposal for an emerging structure that attempts to improve the organisational effectiveness. A new position of VP emerging markets (ME, India and Asia) is created to act as central point of responsibility located within the region. The position also becomes a peer to the executive team (parenting sector) that will still be responsible for some of the business functions. The structure also addresses the corporate visibility issue enabling the new region to be measured easily against key performance indicators. There are four regionally located direct reports to the VP of emerging markets. A regional sales, manufacturing, finance and engineering director could be appointed to concentrate solely on the region. This enables a good strategic fit and devotes the necessary time and parenting advantage from experienced senior managers to the strategy.

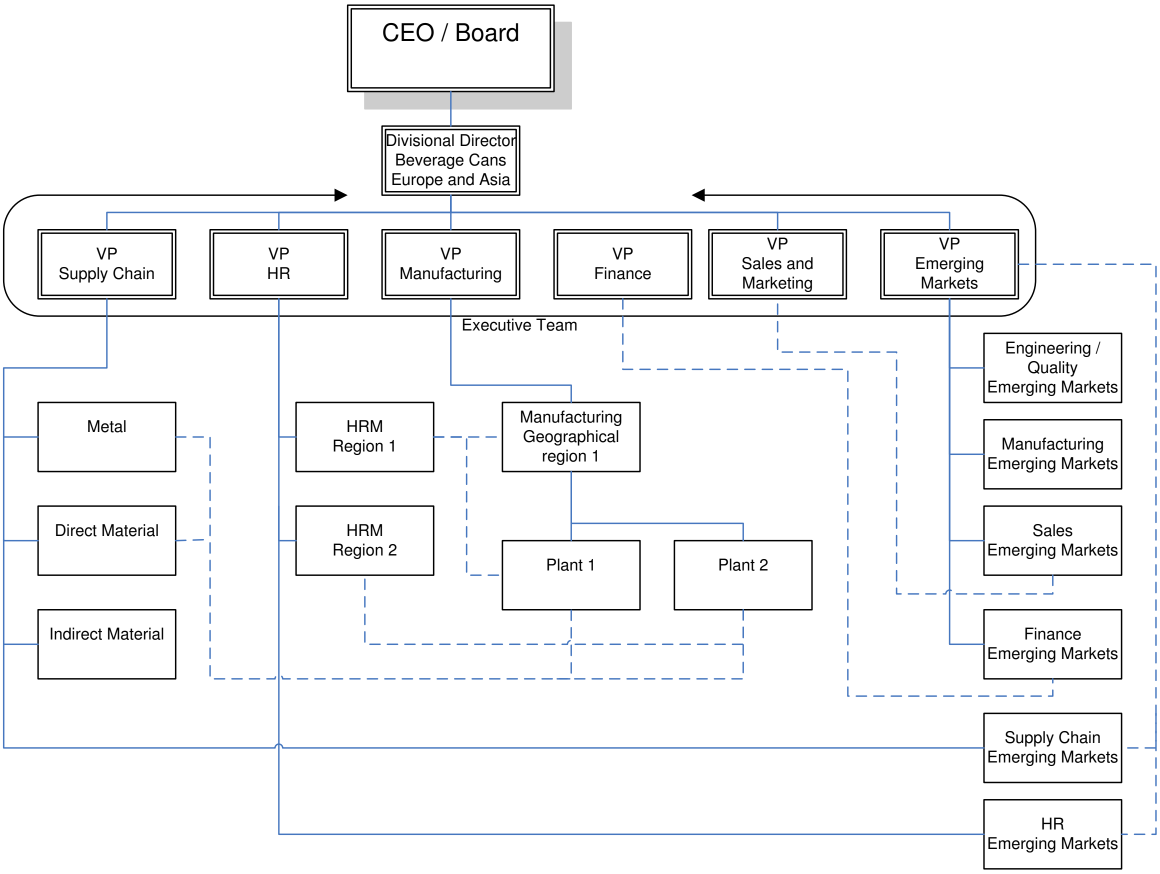


Fig 18.0 – Rexam emerging markets organogram – Sector level

The regional sales director should have a level of autonomy that enables the majority of the regional decisions to remain within the region. The dotted line to the sector VP ensures a level of parenting advantage and expertise. During contract renewals this dotted line would be invaluable as Rexam needs a global perspective as it negotiates with global customers. The local feel for the structure would be accomplished from the local sales managers within the geographic locations.

Regional engineering and manufacturing will need to be developed to support the region. Because of the geographies involved these functions will be more effective if located regionally. The region cannot rely on the sector resource as it constantly jockeys for position with all the other sector projects. The emerging markets are predicted to grow and therefore the support for manufacturing and engineering should be geographically based with local expertise and being developed as priority. Regional finance will work locally with the plant finance managers and globally with the sector VP. With strong dotted lines into the geographic locations and the sector functions both local expertise and knowledge will be developed and a global overview still retained from the parenting sector.

Supply chain and HR are still supported from the sector to take advantage of the global synergies and contract negotiations. These positions would not necessarily need to be located within the new region but the focus and accountability for results would be solely on the region. The key change from the previous supply chain structure is the position of regional supply chain manager. By having one person for the new region to manage all aspects of the supply chain the amount of business links and dotted lines are significantly reduced. There could be some overlap in the sector office however as the job holder would manage all materials for the region where there are functional specialists for each individual part of the supply chain. This would need careful management but as central contracts are negotiated annually (when peers should work together) much of the ongoing workload is about supplier relationships, new supplier implementation, ongoing developments and supply forecasting. Sector HR should still take a controlling role as the new region would need support in recruitment, succession planning and technical expertise. The proposed structure aims to put the functions in place that need to be geographically present to effectively manage the region whilst minimising cost through creating cross functional regional managers. The concept of the redesign is –

- Autonomous management that has clearly defined roles and responsibilities
- Service the customer and the operations with locally developed support
- Only communicate what needs communicating to sector and corporate levels
- Keep the structure simple, minimising the number of employees through the creation of multifunctional roles
- Minimise the cost of administration
- Maximise the parenting advantages and leverage the group synergies
- Create a flexible organisation that can evolve as and if the region expands in the future

The local level organogram is shown in below (fig 19.0) and makes a recommendation for the roles required to effectively manage the new region. The countries selected include Turkey, Egypt, India and China. Whilst Turkey is not considered an emerging market, it is does have some synergies with Egypt, North African and the Middle East for Rexam due to the geographical positioning. By selecting four plants for a new region it could be considered economically viable from a cost perspective.

The effect of this new regional structure should not have a significant impact on the current organisational costs. The total headcount for ‘Rexam globally’ should not increase significantly if at all. This proposal challenges the existing reporting structure, simplifies the organisation and creates some opportunities. Additional costs of offices and administration would be offset by the costs of an alternative structural strategy of remote support (hotels and flights etc).

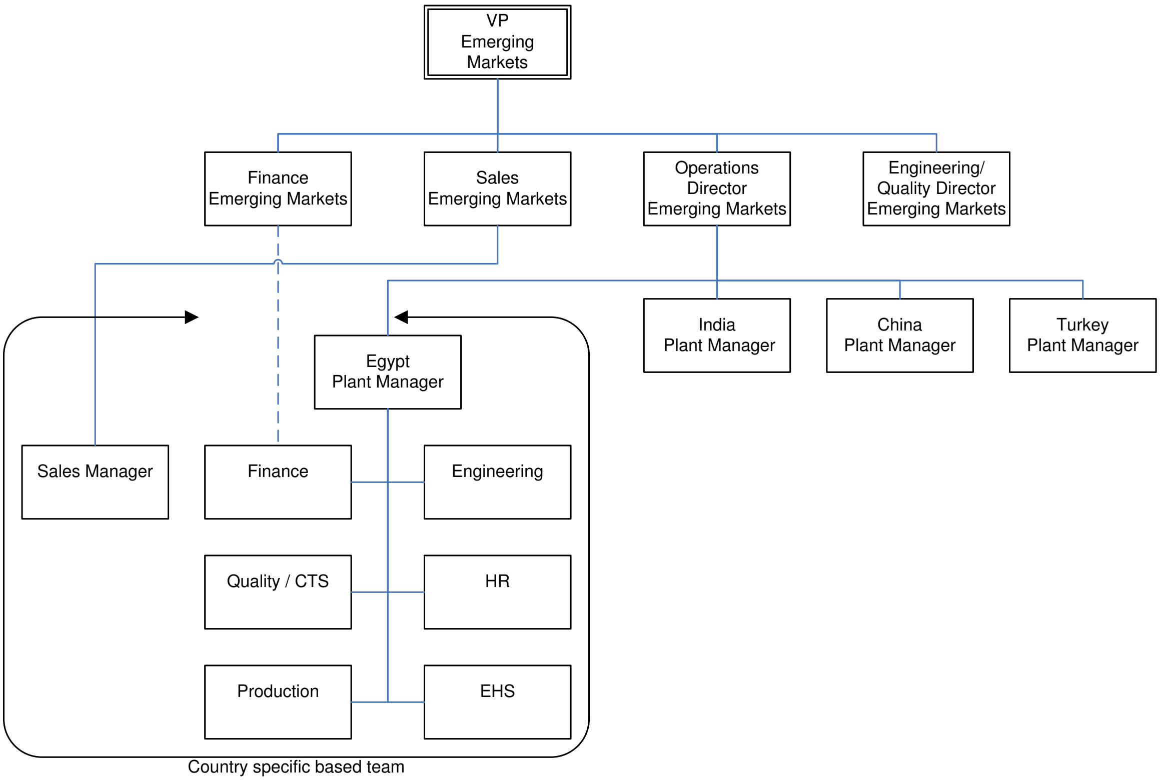


Fig 19.0 – Rexam emerging markets organogram – Local level

The organogram (fig 19.0) shows how the new region could be structured at local level. Each of the plants would continue with the existing standardised management structures but reporting to the new regional structure. The engineering and quality director now takes on responsibility for the two functions and provides the resource and support for projects and new plant builds. This position also provides a regional support for customer technical services (CTS) in the region. Working closely with engineering is the operations director who could take responsibility for the production planning, logistics, EHS, and lean activities. We can see how the requirement to develop cross functional managers is the only way the costs of administering this structure can be effective. This proposal is similar to that of Crown in the Asia Pacific region where the structure is much simpler and structured to meet the local requirements rather than a sector standard framework.

Addressing the needs

When redesigning a structure we must assess how that structure meets the initial criteria laid with some level of impartiality towards any existing structures or employees. Does the proposed structure address the needs outlined earlier in the chapter?

Strategic intent – is resolved as the structure clearly demonstrates a commitment to a strategy of growth which could be received positively by investors.
The Local / Global dilemma – is resolved with a local sales structure and the group linkages for economies of scale advantages and technical expertise.
Simplification and reduced duplication – is resolved through the use of multi-functional managers and separation from the sector for lower level tasks.
Accountability Responsibility and the environment – is resolved if the structure has clearly defined roles and responsibilities. Simplifying the structure will help improve the team dynamics, trust and communications.
Proactive organisation structural design – is addressed if Rexam follows the principle of good organisational design and implements a process involving managers to determine the most effective organisational structures.
Flexible and evolutionary – the design allows for the eventual segregation from the parenting sector and expansion into a fully autonomous sector. As the strategy develops and the sector expands many of the cross functional roles can be refocused to accommodate an increasing workload.

Implementation

The implementation phase and creating a new organisational structure is the most difficult aspect of organisational design, as discussed by Goold and Campbell (2002). By creating a structured process for the design we can limit the power play and emotions involved. Rexam should use the tools and techniques presented in chapter two to ensure the objectives are effectively determined and resolved in the design.

I suggest a HR lead activity involving stakeholders at all levels. The inputs and outputs required for corporate, sector and local managers should be determined from focus group team activities.
Recommended steps –

1. Determine the requirements from all stakeholders.
2. Benchmark the most effective teams. Rexam should evaluate the most effective teams in the organisation and determine the attributes. How does the team performance compare to other peer teams, how are they structured considering the factors of the survey (number of links, amount of task duplication etc) and how do their responses compare to the averages of the survey?

3. Use relationship and process maps to ensure the communication and tasks required are adequately accounted for. Visually map the tasks and lines of communication.
4. If the maps are too complex and create duplication, review the processes and non value adding elements.
5. Estimate time requirements for tasks to ensure adequate time is allocated to be effective.
6. Aim to reduce the links of the current matrix structure. 80 links could be considered too many and new targets should be set.
7. Consolidate the functions that have synergies to reduce the headcount and costs (e.g. – production planning / metal planning and logistics)
8. Create job descriptions from the process maps, which in turn will define the roles and responsibilities of the roles within the structure.
9. Asses the skill gaps that exist within the existing employees and create action plans to close them.
10. Measure the results by conducting formalised periodic assessments, surveys and reviews. Financial strategic milestones should also be used to monitor performance to long term strategy goals. For example did the organisation achieve the returns expected, the market share or percentage of business in the emerging markets?

The involvement of managers would be quite a change to how organisational structures have been designed in the past. The key is to focus on the tasks and positions and not the individuals concerned. The process has certainly worked for companies such as Unilever and Petco where they have purposefully redesigned the organisation with the involvement of employees. A formal approach to redesign would help determine the congruence levels from the informal and formal networks. Separating various functions and employees from the sector could lead to the loss of important informal networks which is why consultation with the current 'matrix' managers would be advantageous.

The regional and product based corporate perspectives appear to be the best fit for Rexam. The responses from the interviews of corporate leaders concur with the literature and case studies that the matrix structure used by Rexam is ideally suited. It offers flexibility and effective use of resources whilst maintaining the structure and cost advantages of functional management where required. The structure being proposed for the emerging markets is integrated into the matrix structure for BCE&A. The perspective of the new region differs from BCE&A as it is geographic rather than functional. This is similar to Rexam's competition and many other companies that face the dilemma of creating a smaller cost effective region. The structure however does offer scope for expansion and with a portfolio of four plants there should be enough resource and management attention to cope with additional business and new lines and plants.

4. Final Thoughts and The Future of Organisational Redesign at Rexam

The proposed organisational structure presented in section 2 of this chapter is by no means a definitive solution to Rexam’s needs. Instead I have presented an alternative to the existing structure and in the process suggested how a new organisational structure could potentially be more effective. If this paper achieves no more than creating a thought provoking process for the Rexam executives and managers then I still believe it will be a success. I do not suggest that the alternative structure presented in the report should be implemented without further discussion, consultation, analysis and a consensus of opinion. After all, one of the key principles of good organisational design is the involvement of people within the organisation that effects the business results. The strategy to grow in the ME, Asia and India offers a new opportunity to test and develop a process for organisational design rather than creating a structure on a needs basis at a point in time. If Rexam is committed to this strategy of growth it has little to lose in determining how a structure should be designed proactively ahead of the growth. As discussed earlier, Unilever and many other companies are assessing how to proactively structure their companies for the future. I concur with Chandler (1962) and the general consensus of the Rexam interviewees, that structure follows strategy. However, the time lag between the change in strategy and the change in structure to support that strategy is an aspect that could effect the implementation and results. Too late and the strategy is not supported and too soon unnecessary costs and complexity can be introduced.

The involvement of more employees in the organisational design process using lean tools and methodology would be a new concept for Rexam but there are no good reasons not to. Rexam’s core values include trust and openness; therefore we should not steer away from progress and should turn employee’s emotions into productive energy whilst conducting effectiveness reviews of the organisational structure. This report differs from the available literature in that it presents real business examples for how the implementation of a process could improve effectiveness. I have documented opinions from members of an organisation that has a need for structural evaluation to implement a strategy for growth. The report is very specific to Rexam Plc and contains detailed analysis unlike some of the available literature. The case studies used provide a useful insight but only provide an historical sequence of events rather than proposing a system that can be applied to other businesses. This point illustrates how organisational design is specific to a company as it follows its strategy and we know different companies have different strategies.

This paper supports and recommends that Rexam considers a process for assessing the effectiveness of the organisational structure. When the company makes changes to the current structure the process should take an holistic view and measure the effect on the rest of the organisation. Taking a proactive approach for the immediate needs could act as a pilot project and could present a process opportunity that the rest of the organisation can benefit from.

Further Research

The results and conclusions of this report have created an interest in two key areas for further research. Firstly are companies now adopting a proactive approach to organisational redesign? As identified during the report Unilever developed a proactive approach with a framework that included clear goals and objectives in the redesign process. Unilever adapted the organisational structure with the aim to speed up management processes by simplifying the structure and creating clear lines of responsibility and accountability. The Rexam executives that were interviewed as part of this report recognise that a proactive approach could be beneficial to the company and that the traditional 'bottom up' process should be reviewed. I therefore suggest further research is conducted to identify if the companies that proactively reorganise their structure have a superior performance to those that reorganise after a crisis. The results of this research could present a whole new dimension to organisational design and create a competitive advantage for early adopters. With empirical proof that a proactive approach improves strategy deployment and hence returns companies would be encouraged to deal with the emotional aspects of organisational design and create an ongoing review process.

The second area suggested for further research should explore why differences of opinion are present within an organisation. Why do the functional mangers perceive the company's relative positioning and 'fit' differently to regional and geographic mangers against the nine organisational 'fit' tests. If research suggested that functional, regional and geographic managers all have different needs and expectations within the same organisation, then we should expand some of the literature that appears to suggest that managers have 'one size fits all' requirement. Further research should expand this topic to determine if functional, geographic and regional managers have the same needs from a structure in other companies? This information would be useful when determining the attributes for an effective organisation. What is the optimum number of linkages a person should have, how much time should an employee spend with their line manager / direct reports etc. There are no guidelines to any of these questions presently; hence researching other companies and assessing the attributes of their most effective teams could offer some insight for dealing with the micro planning of organisational structures and the effect on employee motivation and team congruence.

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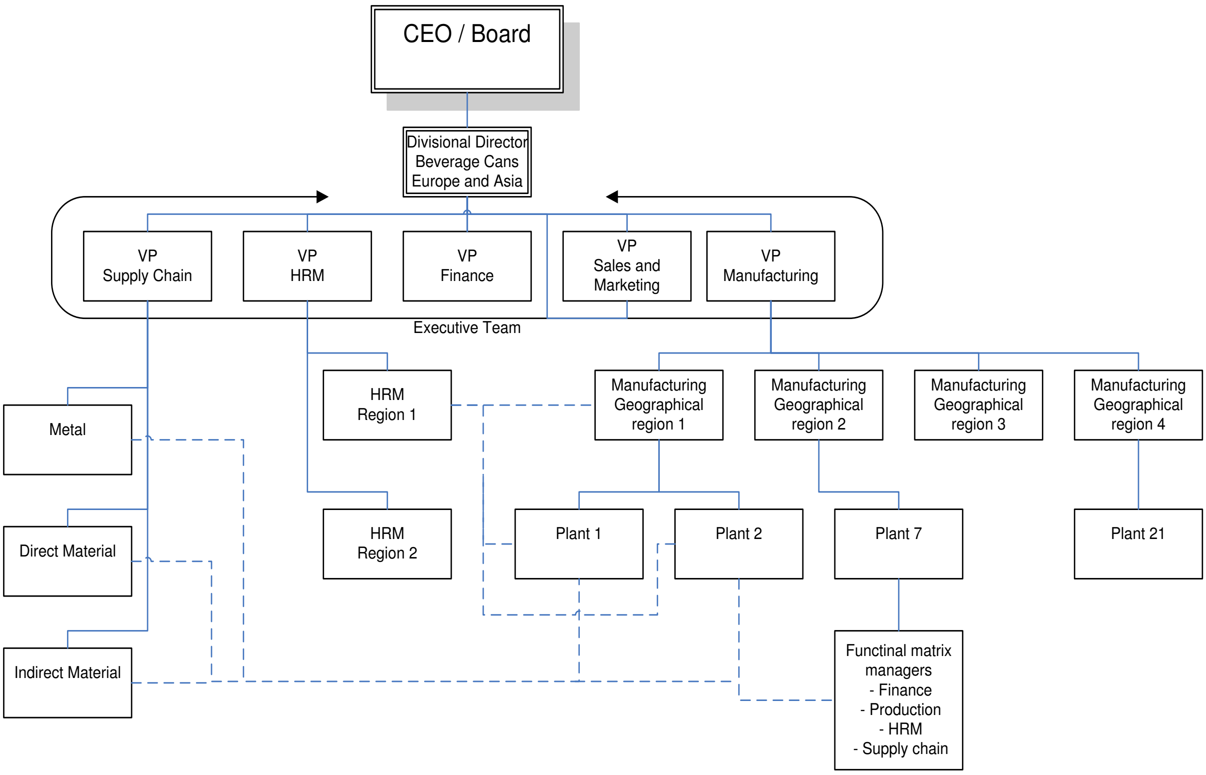
6. Appendices

6.1 The online survey overview

Matrix organisations promote the sharing of resources across all functions and divisions of the company whilst also providing flexibility and balanced decision making. In theory matrix organisations are more responsive to changes in the market and technology. However all the flexibility and responsiveness can come at the price of complexity and ambiguity?

This survey focuses on the matrix organisation that Rexam uses as a solution for managing the business. The organogram below shows part of the structure for the Europe and Asia sector with examples of dotted lines (indirect reporting lines) connected to geographical, regional and functional reporting structures.



Typical of matrix structures are the functional, product or geographical managers who share resources and sometimes report to more than one functional manager. Plant Managers are good examples of geographic managers within the matrix – concentrated in one country but having many links (dotted lines) to the centre of the organisation (sales, supply chain, lean, HR, etc). Central finance is a good example of a functional manager – concentrated centrally, predominantly working in finance but with many links (dotted lines) to many regions / plants. Regional managers (regional sales for example) reside between the geographic and functional managers. They can have responsibility for more than one location / customer but not all of them in the organisation. They can also be linked to more than one function (sales, packaging, warehousing, etc).

For the purpose of this survey I have designed the questions around 8 of the tests for structural assessment as defined by academics Goold and Campbell (2002. These tests are designed to help managers set the right amount of hierarchy, empowerment and control whilst providing a structure that still fosters initiative, creativity, networking and flexibility.

Getting The Fit Right – asks if the company in its current structure diverts enough management attention to the strategies that provide a competitive advantage.

The Parenting Advantage – Is provided by the company's parenting (value adding) propositions.
The People Test – reviews the skills and attitudes of the members of the organisation.
Refining the Design – considers the impact the design has on the specialist cultures within the organisation.
The Difficult-Links Test – assesses how the linkages required in the organisation function together.
The Redundant Hierarchy Test – Asks if the organisation has too many parent levels that does not balance the value adding vs. cost of structure dilemma.
The Accountability Test – ensures the design is supporting effective controls over its performance.
The Flexibility Test – assesses the design structure for the facilitation of implementing new strategies for the organisation.